

STATE, FOREIGN OPERATIONS, AND RELATED PROGRAMS APPROPRIATIONS FOR 2011

HEARINGS BEFORE A SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES ONE HUNDRED ELEVENTH CONGRESS SECOND SESSION

SUBCOMMITTEE ON STATE, FOREIGN OPERATIONS, AND RELATED PROGRAMS

NITA M. LOWEY, New York, *Chairwoman*

JESSE L. JACKSON, JR., Illinois
ADAM SCHIFF, California
STEVE ISRAEL, New York
BEN CHANDLER, Kentucky
STEVEN R. ROTHMAN, New Jersey
BARBARA LEE, California
JAMES P. MORAN, Virginia

KAY GRANGER, Texas
MARK STEVEN KIRK, Illinois
ANDER CRENSHAW, Florida
DENNIS R. REHBERG, Montana

NOTE: Under Committee Rules, Mr. Obey, as Chairman of the Full Committee, and Mr. Lewis, as Ranking
Minority Member of the Full Committee, are authorized to sit as Members of all Subcommittees.

NISHA DESAI BISWAL, CRAIG HIGGINS, STEVE MARCHESI, MICHELE SUMILAS,
MICHAEL MAREK, and CLELIA ALVARADO,
Staff Assistants

PART 6

	Page
United States Department of State	1
U.S. Agency for International Development	97
Department of Treasury International Development	273
Peace Corps	381
Millennium Challenge Corporation	427
Global Health and HIV/AIDS	489
Security Assistance	579
Oversight of Civilian Assistance for Afghanistan	655
U.S. Civilian Assistance for Afghanistan	783

Printed for the use of the Committee on Appropriations

PART 6—STATE, FOREIGN OPERATIONS, AND RELATED PROGRAMS APPROPRIATIONS FOR 2011

STATE, FOREIGN OPERATIONS, AND RELATED PROGRAMS APPROPRIATIONS FOR 2011

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES ONE HUNDRED ELEVENTH CONGRESS SECOND SESSION

SUBCOMMITTEE ON STATE, FOREIGN OPERATIONS, AND RELATED
PROGRAMS

NITA M. LOWEY, New York, *Chairwoman*

JESSE L. JACKSON, JR., Illinois
ADAM SCHIFF, California
STEVE ISRAEL, New York
BEN CHANDLER, Kentucky
STEVEN R. ROTHMAN, New Jersey
BARBARA LEE, California
JAMES P. MORAN, Virginia

KAY GRANGER, Texas
MARK STEVEN KIRK, Illinois
ANDER CRENSHAW, Florida
DENNIS R. REHBERG, Montana

NOTE: Under Committee Rules, Mr. Obey, as Chairman of the Full Committee, and Mr. Lewis, as Ranking
Minority Member of the Full Committee, are authorized to sit as Members of all Subcommittees.

NISHA DESAI BISWAL, CRAIG HIGGINS, STEVE MARCHESE, MICHELE SUMILAS,
MICHAEL MAREK, and CLELIA ALVARADO,
Staff Assistants

PART 6

	Page
United States Department of State	1
U.S. Agency for International Development	97
Department of Treasury International Development	273
Peace Corps	381
Millennium Challenge Corporation	427
Global Health and HIV/AIDS	489
Security Assistance	579
Oversight of Civilian Assistance for Afghanistan	655
U.S. Civilian Assistance for Afghanistan	783

Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE

COMMITTEE ON APPROPRIATIONS

DAVID R. OBEY, Wisconsin, *Chairman*

NORMAN D. DICKS, Washington	JERRY LEWIS, California
ALAN B. MOLLOHAN, West Virginia	C. W. BILL YOUNG, Florida
MARCY KAPTUR, Ohio	HAROLD ROGERS, Kentucky
PETER J. VISCLOSKEY, Indiana	FRANK R. WOLF, Virginia
NITA M. LOWEY, New York	JACK KINGSTON, Georgia
JOSE E. SERRANO, New York	RODNEY P. FRELINGHUYSEN, New Jersey
ROSA L. DeLAURO, Connecticut	TODD TIAHRT, Kansas
JAMES P. MORAN, Virginia	ZACH WAMP, Tennessee
JOHN W. OLVER, Massachusetts	TOM LATHAM, Iowa
ED PASTOR, Arizona	ROBERT B. ADERHOLT, Alabama
DAVID E. PRICE, North Carolina	JO ANN EMERSON, Missouri
CHET EDWARDS, Texas	KAY GRANGER, Texas
PATRICK J. KENNEDY, Rhode Island	MICHAEL K. SIMPSON, Idaho
MAURICE D. HINCHEY, New York	JOHN ABNEY CULBERSON, Texas
LUCILLE ROYBAL-ALLARD, California	MARK STEVEN KIRK, Illinois
SAM FARR, California	ANDER CRENSHAW, Florida
JESSE L. JACKSON, Jr., Illinois	DENNIS R. REHBERG, Montana
CAROLYN C. KILPATRICK, Michigan	JOHN R. CARTER, Texas
ALLEN BOYD, Florida	RODNEY ALEXANDER, Louisiana
CHAKA FATTAH, Pennsylvania	KEN CALVERT, California
STEVEN R. ROTHMAN, New Jersey	JO BONNER, Alabama
SANFORD D. BISHOP, Jr., Georgia	STEVEN C. LATOURETTE, Ohio
MARION BERRY, Arkansas	TOM COLE, Oklahoma
BARBARA LEE, California	
ADAM SCHIFF, California	
MICHAEL HONDA, California	
BETTY McCOLLUM, Minnesota	
STEVE ISRAEL, New York	
TIM RYAN, Ohio	
C.A. "DUTCH" RUPPERSBERGER, Maryland	
BEN CHANDLER, Kentucky	
DEBBIE WASSERMAN SCHULTZ, Florida	
CIRO RODRIGUEZ, Texas	
LINCOLN DAVIS, Tennessee	
JOHN T. SALAZAR, Colorado	
PATRICK J. MURPHY, Pennsylvania	

BEVERLY PHETO, *Clerk and Staff Director*

STATE, FOREIGN OPERATIONS, AND RELATED PROGRAMS APPROPRIATIONS FOR 2011

THURSDAY, FEBRUARY 25, 2010.

FISCAL YEAR 2011 BUDGET REQUEST FOR THE STATE DEPARTMENT

WITNESS

HON. HILLARY RODHAM CLINTON, SECRETARY OF STATE

OPENING STATEMENT OF CHAIRWOMAN LOWEY

Mrs. LOWEY. The Subcommittee on State, Foreign Operations, and Related Programs will come to order.

The Subcommittee on State, Foreign Operations, and Related Programs is delighted to welcome to our subcommittee Secretary Clinton.

As always, it is an honor to have you with us. Your dedicated service and tireless efforts have taken you to over 47—it is hard to believe—47 countries in just 1 year. Your hard work as our Nation's chief diplomat is respected and appreciated and has had an enormous impact. After many years of decline, global attitudes about the United States are on the rise. According to the most recent Pew Research Center Survey, "The image of the United States has improved markedly in most parts of the world. In many countries opinions of the United States are about as positive as they were at the beginning of the decade."

Our challenges are many, and your effective representation of the United States facilitates stronger multilateral partnerships to address global threats like instability in Afghanistan, Pakistan, Yemen, as well as Iran's nuclear ambitions.

Along with defense, diplomacy and development are essential elements of our national security strategy. With this budget request, the administration seeks diplomacy and development funding levels that will result in longer-term savings as we transition from the military to civilians in Iraq and work to prevent instability by addressing the root causes of conflict. But as we strive to foster greater stability and security overseas through "smart power," we face pressing domestic needs. While there are signs of recovery in the economy, with 10 percent unemployment, the mounting Federal debt and budget deficit, the creation of jobs and economic security for American families must be the primary focus of this Congress.

There is no doubt that this will make it difficult to sustain and expand all the priorities laid out in the President's budget request; however, I am optimistic that we can balance our domestic and international priorities.

If we are to increase our assistance in this time of economic security at home, we must ensure that every dollar is well spent. And frankly, I am troubled by recent, SIGAR, SIGIR, OIG reports on democracy assistance and police training in Iraq, large power projects in Afghanistan, and development programs in FATA. The 2011 budget and 2010 supplemental requests for significant increases in Afghanistan, Pakistan and Iraq require accountability to the U.S. taxpayer. Despite the difficult operating environments, to gain the trust and funding from this Congress, recommendations of the inspector generals should be implemented expeditiously.

Madam Secretary, in this context we turn to the President's fiscal year 2011 budget request for the programs and activities within the jurisdiction of the State, Foreign Operations, and Related Programs Subcommittee. At a total of \$56.6 billion, it is \$5.4 billion, or 11 percent, above the comparable fiscal year 2010 level, with over two-thirds of the increase for diplomacy and development in the frontline States of Afghanistan, Pakistan and Iraq. The balance of the increase continues the rebuilding of civilian staff at the Department of State and USAID, and prioritizes three key issues: global health, climate change, and food security.

I am particularly pleased the budget rebalances the roles between the Department of Defense and the Department of State. The request of \$1.2 billion for the Pakistan Counterinsurgency Capability Fund, coupled with the doubling of funding for the Complex Crises Fund, in lieu of funding for DOD's section 1207, should ensure the State Department's effective evaluation and implementation of these programs in the context of our overall foreign policy.

Increases for critical development, global climate change, food security and global health are clearly aimed at creating the necessary conditions in developing countries for the growth of democracy, economic expansion and ultimately increased stability, priorities we all share.

I applaud your emphasis on global health, which has proven to be one of our most effective interventions. While nearly 2.8 million people became infected with HIV/AIDS in 2008, this figure reflects a 20 percent decline in new infections compared to 2000, which is quite an accomplishment. Clearly our efforts are making a difference. Accountability and results in PEPFAR programs are also reflected in the administration's Global Health Initiative. Coordinating with USAID's global health programs, they will complement one another as well as the investments made by other country donors and the private sector like the Gates Foundation; Clinton Global Initiative; Global Fund to Fight AIDS, Tuberculosis and Malaria, and many more. And working together, which is an issue that we have been talking about for a long time, provides efficiency and effectiveness.

Unfortunately, the budget did not prioritize basic education, an issue that we have both championed for many years. Education is the essential foundation for health, economic development, gender equality and long-term security. I am concerned that the requested cuts of nearly \$100 million for this critical priority could compromise our development goals. This subcommittee will examine this proposal very closely. I hope you will work with us to restore funding to this program.

In addition, in your remarks I hope you will address questions regarding the administration's strategy for stopping Iran's quest for nuclear weapons, the justification for supplemental funding in light of previous assurances that regular appropriations would address recurrent needs, Yemen's ability to be a consistent partner in our fight against al Qaeda, and the status of the Middle East peace negotiations, among, I am sure, many other issues.

Finally, I want to thank the State Department for your extraordinary efforts to coordinate the response in Haiti. All of us are following the humanitarian response closely and are moved by the spirit and resilience of the Haitian people. And frankly, I was extraordinarily moved, and I continue to be extraordinarily moved and proud to be an American, to see our presence there. We look forward to working with you to ensure that adequate resources are provided for this humanitarian response. Reconstruction activities must be preceded by careful planning, oversight and guarantees that the money will be well spent.

So thank you again, Madam Secretary, for your service.

I would now like to turn to my esteemed Ranking Member Kay Granger.

OPENING REMARKS OF MS. GRANGER

Ms. GRANGER. Thank you, Madam Chair. I want to thank Secretary Clinton for appearing before the subcommittee today to explain the Administration's budget priorities for the State Department and foreign assistance programs. Madam Secretary, let me first say that I strongly support the objectives you seek to achieve with the fiscal year 2011 budget request and the fiscal year 2010 supplemental. However, even though the subcommittee has only begun to receive the details of this budget request, the top-line numbers are startling in their size. No matter how you frame the budget proposal, there is a double-digit increase for international affairs. Given the daunting fiscal situation this country is facing, I would not be of service to my constituents or my own conscience if I didn't pledge to examine the increase carefully and with some skepticism.

I do recognize that the entire supplemental request and a large portion of the fiscal year budget request supports the frontline States of Iraq, Afghanistan and Pakistan, as Madam Chair discussed. But it was only last year that the Administration made a pledge to move away from supplemental appropriations. The subcommittee will take a close look at whether all of the \$4.5 billion requested in the supplemental is, in fact, an emergency requirement when billions of dollars provided for these countries remain unobligated or unspent. There is no doubt, though, that the work being done in these countries is critical to achieving our national security and foreign policy objectives.

I want to thank the men and women of this country in various Federal agencies for serving in the most difficult of circumstances overseas. They need our bipartisan support to achieve success.

The budget request also includes a transition of some activities in these frontline states from the Department of Defense to the Department of State. I applaud the Administration for looking across the government to determine which agency is the appropriate lead,

especially when our troops are already being asked to take on so much as we continue to fight two wars. But it is equally important to be sure that the State Department is ready to take on all of these responsibilities. These functions are much too critical to be delayed or to be done ineffectively.

The Administration's budget request also includes billions of dollars in new resources for climate change, food security and global health. I worry that these significant multiyear commitments don't take into account the fiscal realities this country and this Congress face. I want to hear more about the promises made by the executive branch. I pledge to work with my colleagues to extract details about these commitments, place oversight requirements on the funding provided, and keep a close eye on taxpayer dollars as programs are implemented.

Madam Secretary, you have an enormous task in front of you. We all recognize that. We cannot let our efforts in Iraq, Afghanistan or Pakistan fail. We can't let other countries become breeding grounds for extremism. We can't let Iran's nuclear ambitions go unchecked, and we can't walk away from the fight against drug trafficking in this hemisphere. I know that you know that.

In closing, I understand that balancing these and many other competing priorities around the world is not easy. I support your goal of having the right people in the right places so that the United States can overcome these challenges. I assure you I will work to give you the resources you need. However, there are many needs in this country as well, and this committee has the responsibility to ensure that our tax dollars are used efficiently and in a transparent method. My colleagues and I take that responsibility very seriously. We look forward to working with you so that we can better understand the full details of the budget request before us.

Thank you, Madam Chair.

Mrs. LOWEY. Thank you.

Madam Secretary. Please proceed with your statement.

OPENING STATEMENT OF SECRETARY CLINTON

Secretary CLINTON. Well, thank you very much. Thank you, Chairwoman Lowey, Ranking Member Granger, members of the subcommittee, Chairman of the full committee Obey. It is a pleasure to be here with you today. When I was last here to discuss our budget, I emphasized my commitment to elevating diplomacy and development as core pillars of American power. Since then, I have been heartened by the bipartisan support of this committee and the rest of the Congress. So let me take a minute to thank you on behalf of the men and women of the State Department and USAID who work every day around the world to put our foreign policy into action.

The budget we are presenting today is designed to protect America and Americans and to advance our interests. Our fiscal year 2011 request for the State Department and USAID totals \$52.8 billion. That is a \$4.9 billion increase over 2010. Of that increase, \$3.6 billion will go to supporting efforts in frontline states, Afghanistan, Pakistan and Iraq. Other funding will grow by \$1.3 billion, or a 2.7 percent increase, that will help us address global challenges, strengthen essential partnerships, and ensure that the

State Department and USAID are equipped with the right people and resources to meet the challenges of our time.

Over the past 6 weeks in Haiti, we have been reminded yet again of the importance of American leadership. I am very proud of what our country has done, and we continue to work with our Haitian and international partners to address ongoing suffering and to help them move from relief to recovery.

Yet I also know this is a time of great economic strain for so many Americans. As a former Member of Congress, I know what this means for the people you represent. For every dollar we spend, we have to show results. That is why this budget must support programs vital to our national security, our national interests, and our leadership in the world, while guarding against waste, duplication and irrelevancy. And I believe it achieves those objectives.

Now, these figures in the budget are more than just numbers on a page. They tell the story of the challenges we face and the resources we request to overcome them. We are fighting two wars that call on the skill and sacrifice of our civilians as well as our troops. We have embarked on a dual-track approach to Iran that has led to a growing consensus and a new unity with our international partners. Because of our efforts and engagement under the President's leadership, we are now coming together with other countries to meet Iran's continuing refusal to live up to its obligations with a unified and effective response.

We are fighting two wars that call on the skill and sacrifice of our civilians as well as our troops, and we believe strongly that what we are doing is essential to achieving our objectives. Specifically, as you mentioned it with Iran, we believe that the President's offer of engagement combined with the dual-track approach has left the international community with little choice but to impose greater costs for its provocative steps.

With China, we are seeking areas of common purpose, while standing firm where we differ. We are making concrete the promise of a new beginning with the Muslim world. We are strengthening partnerships with allies in Europe and Asia, with our friends in the hemisphere, and with countries from India to Indonesia, from South Africa to Brazil and Turkey, and we are working every day to end the impasse between Israelis and Palestinians.

At the same time, we are developing a new architecture of co-operation to meet global challenges, like climate change and the use of our planet's oceans. In so many instances, our national interests and the common interests converge, and so we are promoting human rights, the rule of law, democracy and Internet freedom. We are fighting poverty, hunger, disease, and working to ensure that economic growth is broadly shared.

Our agenda is ambitious because the times demand it. America is called to lead, and we have no alternative. We can bury our heads in the sand and pay the consequences later, or we can make hard-nosed, targeted investments now.

Let me just highlight three areas where we are making significant new investments. First, the security of frontline States. In Afghanistan, we have tripled the number of civilians in 1 year on the ground, and this presence will grow by hundreds more with the \$5 billion in this budget. Our diplomats and development experts are

going into Marja with our troops there, embedded with our troops. They are, as we speak, working to help set up institutions of government, expand economic opportunities, particularly in agriculture, and provide meaningful alternatives for insurgents ready to renounce violence.

In Pakistan, our request includes \$3.2 billion to combat extremism, promote economic development, strengthen democratic institutions and build a long-term relationship with the Pakistani people. This includes funding of the Kerry-Lugar-Berman initiative. Our request also includes a 59 percent increase in funding for Yemen to help counter the extremist threat brought to our shores by al Qaeda in the Arabian Peninsula, and to build institutions and economic opportunity as an alternative.

In Iraq, we are winding down our military presence and establishing a more normal civilian mission. Our civilian efforts will not and cannot mirror the scale of our military presence, but rather provides assistance consistent with the priorities of the Iraqi Government. So, our request includes \$2.6 billion to help support the democratic process and ensure a smooth transition from the Department of Defense to civilian-led security training and operational support. These funds will allow civilians to take full responsibility, and at the same time, the defense budget for Iraq will be decreasing by about \$16 billion. That is a powerful illustration of the return on civilian investment.

We are blessed with the best military in the world, as we have seen time and time again in today's wars. But we need to give our civilian experts the resources to do the job expected of them. This budget takes a step in the right direction. It includes \$100 million for a State Department Complex Crises Fund, replacing the 1207 fund through which the Defense Department directed money toward crisis response, and it includes support for the Pakistan Counterinsurgency Capability Fund, which previously also fell under the Defense Department.

The second major area is investing in development, so this budget makes targeted investments in fragile societies, which, in our interconnected world, bear heavily on our own security and prosperity. These investments are a key part of our efforts to get ahead of crises instead of just responding to them all the time. I think it will help us be better positioned to deal with them and maybe prevent them, and I believe also can be less expensive.

The first of these is in health. Building on our progress treating HIV, malaria and tuberculosis, our Global Health Initiative will invest \$63 billion over 6 years, starting with \$8.5 billion in fiscal year 2011 to help our partners address specific diseases and to build strong, sustainable health systems for themselves.

The administration has also pledged to invest at least \$3.5 billion in food security over 3 years, and this year's request includes \$1.6 billion of which \$1.2 billion will be funded through the State Department. This funding will focus on countries that have developed effective, comprehensive strategies where agriculture is central to prosperity and hunger remains widespread.

On climate change, our request for \$646 million seeks to promote the United States as a leader in green technology and to leverage other countries' cooperation, including through the Copenhagen Ac-

cord, which for the first time brought together developed and developing countries. And this is part of the administration's total request of \$1.4 billion to support core climate change activities in developing nations.

Our request also includes \$4.2 billion for humanitarian assistance programs. I think, again, our efforts in Haiti have made clear that State and USAID must be able to respond quickly and effectively to human tragedies. These initiatives are designed to enhance American security, help people in need, and give the American people a strong return on their investment. Our aim is not to create or perpetuate dependency; we are not going to be just aiming at giving fish to people forever. We want to teach them to fish and help them devise solutions that will be in their best interests over time. And essential to this is a focus on advancing equality and opportunity for women and girls, who are the key drivers of economic and social progress.

That brings me to the final and third area of investment. None of what we propose can happen if we don't recruit, train and empower the right people for the job. State Department and USAID are full of talented and committed public servants, but too often they have been missing the tools needed to carry out their missions on the ground. And rather than building their expertise over time, we have too often relied on contractors, sometimes with very little oversight and often at a greater cost.

This budget will allow us to expand the Foreign Service by over 600 positions, including an additional 410 for the State Department and 200 for USAID. It will also allow us to staff the stand-by element of the Civilian Reserve Corps, a crucial tool for responding to crises. Now, while deploying these personnel does generate new expenses in some accounts, it will reduce expenses in others by changing the way we do business. We are ending an overreliance on contractors. We are saving money by bringing functions into government and improving oversight, and we take very seriously the IG lessons that we are applying.

So I hope, Madam Chairwoman and Ranking Member, we can see from this budget that the United States State Department and USAID are taking the lead in helping to carry out foreign policy and national security. And as we finish the first-ever Quadrennial Diplomacy and Development Review, we will have a unique opportunity to define the capabilities we need and to match them with the resources and the priorities.

I hope that we will continue to be able to work together in the year ahead. This is essential if we are going to enhance the security of Americans and assure the future of American leadership. I look forward to that, as I look forward now to taking your questions.

Mrs. LOWEY. Thank you, Madam Secretary.

[The information follows:]

**SECRETARY OF STATE HILLARY RODHAM CLINTON
CONGRESSIONAL TESTIMONY
HOUSE APPROPRIATIONS COMMITTEE
SUBCOMMITTEE ON STATE AND FOREIGN OPERATIONS
FEBRUARY 25, 2010**

Chairwoman Lowey, Representative Granger, and Members of the Subcommittee, it is a pleasure to be with you today. When I was last here to discuss our budget, I emphasized my commitment to elevating diplomacy and development as core pillars of American power. Since then, I have been heartened by the bipartisan support of this committee and the rest of Congress. Let me take this opportunity to thank you, on behalf of the men and women who work every day around the world to put our foreign policy into action.

The budget we are presenting today is designed to protect America and Americans and to advance our interests. Our fiscal year 2011 request for the State Department and USAID totals \$52.8 billion – a \$4.9 billion increase over 2010. Of that increase, \$3.6 billion will go to supporting efforts in “frontline states” – Afghanistan, Pakistan, and Iraq. Other funding will grow by \$1.3 billion, a 2.7 percent increase that will help address global challenges, strengthen partnerships, and ensure that the State Department and USAID are equipped with the right people and resources.

Over the past six weeks in Haiti, we have been reminded yet again of the importance of American leadership. I’m proud of what our country has done, and we continue to work with our Haitian and international partners to address ongoing suffering and transition from relief to recovery.

This is a time of great economic strain for many Americans. As a former member of Congress, I know what this means for the people you represent. For every dollar we spend, we have to show results. That is why this budget must support programs vital to our national security, our national interests, and our leadership in the world, while guarding against waste. I believe it achieves those objectives.

OUR PRIORITIES

These figures are more than numbers on a page. They tell the story of challenges we face and the resources we need to overcome them.

We are fighting two wars that call on the skill and sacrifice of our civilians as well as our troops. We have embarked on a dual-track approach to Iran that has led to a growing consensus and new unity with our international partners. Because of our efforts at engagement, we are now coming together with our partners to meet Iran’s continuing refusal to live up to its obligations with a unified and effective response.

We are fighting two wars that call on the skill and sacrifice of our civilians as well as our troops. We have pursued a dual-track approach to Iran that has exposed its refusal to live

up to its responsibilities and helped us achieve a new unity with our international partners. Iran has left the international community little choice but to impose greater costs for its provocative steps. We are now working actively with our partners to prepare and implement new measures to pressure Iran to change its course.

With China, we are seeking areas of common purpose while standing firm where we differ. We are making concrete our new beginning with the Muslim world. We are strengthening partnerships with allies in Europe and Asia, with friends in our hemisphere, and with countries around the world, from India to Indonesia to South Africa, Brazil, and Turkey. And we are working to end the impasse between Israelis and Palestinians.

At the same time, we are developing a new architecture of cooperation to meet global challenges like climate change and the use of our planet's oceans. In so many instances, our national interest and the common interest converge, and so from our own hemisphere to Africa, Asia, and the Middle East, we are promoting human rights, the rule of law, democracy, and Internet freedom; we are fighting poverty, hunger, and disease; and we are working to ensure that economic growth is broadly shared.

Our agenda is ambitious because our times demand it. America is called to lead – and we need the tools and resources to exercise our leadership wisely and effectively. We can bury our heads in the sand and pay the consequences later, or we can make hard-nosed, targeted investments now – addressing the security challenges of today while building a foundation for security and prosperity in the future.

Let me now highlight the three areas where we are making significant new investments.

INVESTING IN SECURITY

First, the security of frontline states.

In Afghanistan, we have tripled the number of civilians on the ground, and this presence will grow by hundreds more with the \$5 billion in this budget. Our diplomats and development experts are helping build institutions, expand economic opportunities, and provide meaningful alternatives for insurgents ready to renounce violence and join their fellow Afghans in the pursuit of peace.

In Pakistan, our request includes \$3.2 billion to combat extremism, promote economic development, strengthen democratic institutions, and build a long-term relationship with the Pakistani people. This includes funding of the Kerry-Lugar-Berman initiative. Our request also includes a 59 percent increase in funding for Yemen, to help counter the extremist threat and build institutions and economic opportunity.

In Iraq, we are winding down our military presence and establishing a more normal civilian mission. Our civilian efforts will not and cannot mirror the scale of our military presence, but rather provide assistance consistent with the priorities of the Iraqi government. Our request includes \$2.6 billion for Iraq – resources that will allow us to

support the democratic process and ensure a smooth transition to civilian-led security training and operational support. As these funds allow civilians to take full responsibility for programs, the Defense budget for Iraq will be decreasing by about \$16 billion – a powerful illustration of the return on civilian investment.

We are blessed with the best troops in the world, as we have seen time and again in today's wars. But we also need to give our civilian experts the resources to do civilian jobs. This budget takes a step in that direction. It includes \$100 million for a State Department complex crises fund – replacing the 1207 fund through which the Defense Department directed money toward crisis response. And it includes support for the Pakistan Counterinsurgency Capability Fund, which previously fell under the Defense Department as well.

INVESTING IN DEVELOPMENT

The second major area is investing in development. This budget makes targeted investments in fragile societies – which, in our interconnected world, bear heavily on our own security and prosperity. These investments are a key part of our effort to get ahead of crises rather than just responding to them, positioning us to deal effectively with the threats and challenges that lie ahead.

The first of these investments is in health. Building on our progress treating HIV, malaria, and tuberculosis, our Global Health Initiative will invest \$63 billion over six years, starting with \$8.5 billion in FY11, to help our partners address specific diseases and build strong, sustainable health systems as they do so.

The Administration has also pledged to invest at least \$3.5 billion in food security over three years, and this year's request includes \$1.6 billion, of which \$1.2 billion is funded through the State Department. This funding will focus on countries that have developed effective, comprehensive strategies, where agriculture is central to prosperity and hunger remains widespread.

On climate change, our request of \$646 million seeks to promote the United States as a leader in green technology and to leverage other countries' cooperation – including through the Copenhagen Accord, which for the first time brings developed and developing countries together on this challenge. This is part of the Administration's total request of \$1.4 billion to support core climate-change activities in developing nations.

Our request also includes \$4.2 billion for humanitarian assistance programs. Our efforts in Haiti have made clear that State and USAID must be able to respond quickly and effectively to human tragedies.

These initiatives are designed to enhance American security, help people in need, and give the American people a strong return on their investment. Our aim is not to create dependency, but to help our partners devise solutions they can sustain over the long term.

Essential to this is a focus on advancing equality and opportunity for women and girls, who are the key drivers of economic and social progress in the developing world.

INVESTING IN THE RIGHT PEOPLE AND TOOLS

That brings me to our third area of investment. None of this can happen if we do not recruit, train, and empower the right people for the job.

The State Department and USAID are full of talented and committed public servants, but we have too often neglected to give them the tools they need to carry out their missions on the ground. Rather than building their expertise, we have too often relied on contractors, sometimes with little oversight.

This budget will allow us to expand the Foreign Service by over 600 positions, including an additional 410 positions for the State Department and 200 for USAID. It will also allow us to staff the standby element of the Civilian Reserve Corps, a crucial tool for responding to crises.

While deploying these personnel generates new expenses in some accounts, it will reduce expenses in others by changing the way we do business. We are ending an over-reliance on contractors and finding opportunities to save money by bringing functions into government and improving oversight.

A YEAR OF RESULTS

One thing should be very clear from this budget: the State Department and USAID are taking a lead in carrying out the United States' foreign policy and national-security agenda. As we finish the first Quadrennial Diplomacy and Development Review, we have a unique opportunity to define the capabilities we need and to match resources with priorities. This budget aligns our investments with the strategic imperatives of our time.

The QDDR will also help ensure that we are more effective and accountable. Jack Lew, the first Deputy Secretary of State for Management and Resources, has put his skill to work in developing this budget and in reviewing it over and over to make sure that every item is economical and effective.

At a time of change and challenge at home and abroad, these investments will enhance the security of Americans, assure the future American leadership, and help build the foundations of peace, stability, and prosperity in the years ahead. I look forward to working with all of you as we move forward, and I would be pleased to take your questions.

IRAN

Mrs. LOWEY. I will begin before I turn to my Ranking Member. I would like to ask two questions, one regarding Iran's nuclear ambitions. You stated in your testimony that we face urgent challenges in the Middle East. The leadership in Iran is dominated by hard-liners whose pursuit of nuclear weapons, support for terrorism through their Hamas and Hezbollah proxies, and assistance to armed groups in Iraq and Afghanistan continue to make Iran a threat to U.S. national security. The need for immediate action is compounded by Iran's notification to the IAEA that it will begin producing high-grade enriched uranium material clearly intended for military weapons, which will ignite or maybe is igniting a regional arms race.

We are committed in the Congress to imposing tough sanctions, both bilateral and multilateral, to stop Iran in its tracks. We need assurances that the administration is doing all it can to put pressure on Iran and those countries who are not fully cooperating with the sanction efforts. So if you can address the immediate next steps and timelines for imposing additional sanctions.

You stated recently that sanctions should target those who actually make the regime's decisions. How exactly would we target sanctions on the Revolutionary Guard and their front companies and the Iranian elite? What are you doing to prevent the U.N. Security Council from watering down any potential resolution and ensure that members, including Russia and China, fully support a tough and enforceable sanction regime? And if tough, binding sanctions cannot be passed in the Security Council, what steps will be taken with the Europeans and other willing countries to enforce crippling sanctions?

Secretary CLINTON. Thank you very much, Congresswoman.

We believe that the broader the consensus on sanctions against Iran, the more isolation and pressure that the Iranian Government will feel. So it is therefore important that we do everything we can to get the world to speak with one voice about Iran's failures to live up to its responsibilities, about its refusal to engage seriously on its nuclear program, about the undisclosed facility revealed at Qom, about the rejection of the Tehran research reactor proposal.

It is essential that we do everything we can to bring the rest of the world with us, and I would make three quick points about that. I believe that the President's policy of engagement has actually assisted our argument very significantly. The world has seen the United States willing to talk with Iran, and we have seen Iran unwilling to talk seriously with the United States or anyone else. The fact that under President Obama's leadership we were willing to do so has made much of the rest of the world much more responsive than they would have otherwise been.

So, we are intensely pursuing diplomatic engagement around the issue and the content of sanctions. The State Department has worked closely with the Treasury Department in devising sanctions on individuals, on institutions, in areas of the economy, on a range of potential targets that we are now working to translate into a Security Council resolution.

I actually believe that we have had very productive conversations. I personally have engaged in many different settings over the last month; in London when I was there for the Afghanistan conference, in the Gulf where I just was, and then next week in Latin America.

But I want to underscore that our efforts in the United Nations does not preclude us from taking additional national measures or working with other countries to take additional multilateral measures. We very well could supplement any resolution that we get in New York, and I think that what the Congress has done, we support the purpose and principle of the legislation passed in both Houses. We are working to make sure that we have the strongest possible approach about how we can effectively impact Iran, and we are hoping that we will see some positive results coming in the weeks ahead.

Mrs. LOWEY. Thank you, Madam Secretary.

Ms. Granger.

Ms. GRANGER. Thank you.

We have all been concerned about the growing threat of extremism in places like Yemen. Certainly the Christmas Day failed terrorism plot brought that to everyone's attention. Funding was provided by this subcommittee to allow the State Department to significantly increase economic and military aid to Yemen by 60 percent in 2010. That doesn't count the DOD plans to provide counterterrorism or security assistance.

I have several questions. First, when does the Administration plan to consult with the subcommittee on its plans for fiscal year 2011? And can you provide a preview for what types of activities you intend to support with the estimated \$67 million available? What additional focus does the Administration foresee for the \$106 million requested for fiscal year 2011?

YEMEN

Secretary CLINTON. Congresswoman, we are working very hard to facilitate economic opportunity in Yemen that is combined with our counterterrorism efforts, so that we really are approaching Yemen in a more comprehensive way. It is clear that the growth of Al Qaeda in the Arabian Peninsula is a threat far beyond the borders of Yemen, reaching our own shores. So there has been an increase in military funding and training, intelligence support and other activities directly aimed at empowering the government to go after Al Qaeda. And in the last several months, we have seen evidence of the success of that. The Yemeni military has raided training camps, arrested and killed a number of terrorists.

At the same time, our assessment of Yemen is that you have to strengthen the institutions of the country and the economic opportunities available to the people of the country. I recently represented the United States at a conference about Yemen in London. It was very well attended because we are by far—we are not the biggest contributor. Other countries in the gulf and Europe are also contributing to Yemen. But, we are working as a united effort from the international community aimed at going after the terrorists, strengthening the military capacity of Yemen, and creating a development strategy in concert with the Yemeni Government.

Ms. GRANGER. I was aware of the conference that you attended and my understanding is that the last conference that was held was in 2006, and there were \$5 billion in pledges, but most of that had not been delivered. Is my information correct?

Secretary CLINTON. It is correct. And the reason is, I think, clear that people did not believe that the Government of Yemen was ready to receive either the money or the message that came with the money. But the situation has evolved to an extent where we now believe that the Yemenis are prepared to be a better partner, but we are going to be working hard to hold them accountable.

I have discussed this at length with a lot of the other countries that are investing in Yemen's economic development. I can't sit here today and tell you that we know what the outcome is going to be, because we have to do several things simultaneously. But one indication of the seriousness of Yemen today vis-a-vis perhaps 4 or 5 years ago is they came equipped with a national development plan which included a very candid assessment of their own problems, and that was the first anybody had seen of that. So we are hoping to build on what seems to be a new resolve from Yemen.

Ms. GRANGER. Thank you, Madam Secretary and Madam Chair. I would hope you would keep us informed as to our plans and how our money will be used in Yemen. Thank you very much.

Secretary CLINTON. Yes, ma'am.

Mrs. LOWEY. Thank you. I will be calling on Members based on seniority of the Members that were present when the hearing was called to order, and I will alternate between majority and minority. Each Member is asked to keep their questions to within 5 minutes per round.

Mr. Obey.

Mr. OBEY. Madam Secretary, Eric Severeid said that we needed to retain the courage of one's doubts in dangerous certainties. And I guess I am reminded of that every time I think about policy in Iraq and Afghanistan.

I am concerned that, in the end, there is going to be tremendous pressure for us not to maintain our scheduled withdrawal from Iraq. And I am dubious that, in the end, the Government of Afghanistan or Pakistan will be sufficiently constant and trustworthy to enable our policy in that region to succeed.

But let me put that aside for the moment and simply ask one question. To date, we have appropriated over a trillion dollars for the war in Iraq and Afghanistan. This year, we appropriated \$73 billion for Afghanistan and \$57 billion for Iraq. In the coming year, the administration is asking for \$167 billion, \$122 billion of that for Afghanistan, \$45 billion for Iraq.

CBO has estimated the cost to maintain a minimal level of 40,000 troops in or near Iraq could be as high as \$25 billion per year. The total cost of the Iraq war over 20 years could be well over \$1 trillion, all paid for with deficit spending. Over the next 10 years, at a minimum we are likely to spend \$300 billion in Afghanistan and \$250 billion in Iraq.

Many hundreds of billions more will be required to fulfill our obligations to veterans of those wars. And I am not sure exactly what that means in terms of lifetime costs, but I am certain that it is going to wind up being over \$2 trillion.

Now, in the past, our governments actually paid for their wars. In October, Abraham Lincoln's salary was 3 percent less in 1862 than it was the year before, because Congress passed an income tax in order to pay for that war. World War I, two tax laws were passed: the 1916 Revenue Act and the War Revenue Act of 1917. Even before we entered World War II, taxes were raised in 1940 to support increased defense spending. In the Korean War, we once again saw a substantial increase in taxes. The same is true during Vietnam. It has only been in the last 30 years or so that our political leaders have chosen to cut taxes even as they substantially boosted spending, first on the Cold War and then on several hot wars.

I raise this question simply to ask you two questions. Number one, what does the administration estimate the lifetime costs of the wars in Afghanistan and Iraq to be? And, secondly, why should we not at least pay for the cost of conducting our effort in Afghanistan? I know that decision is above your pay grade, but nonetheless.

I mean, we have just seen a whole lot of talk about having a commission appointed in order to deal with mandatory costs, and yet we are continuing to borrow to pay for these wars. There is no sense of shared sacrifice in this country. The only people sacrificing are military families. Everybody else, we just get to put it on the cuff and it goes to the next generation.

Mr. Murtha and I and 14 others have sponsored legislation suggesting that we ought to, on a delayed basis, at least begin to collect the costs of these wars. We would not have raised a war surtax during the recession. We would have given the President the authority to waive that for at least another year and a half. But, eventually, we wanted to send the signal that we were willing to pay for these, especially when we are being asked to freeze domestic discretionary spending for 3 years.

Why shouldn't we pay cash on the barrel head for this effort so that, regardless of our doubts about the endeavor, that we don't wind up having to severely impinge upon what we need to do here at home because of the cost of that war?

Secretary CLINTON. Chairman Obey, if I may speak personally, it is heartbreaking to me that 10 years ago we had a balanced budget and we were on the way to paying down the debt of the United States of America. I served on the Budget Committee, and I watched with such consternation as we threw away the greatest leverage we would ever have internationally and the greatest opportunity we would ever have to right the generational imbalance that existed.

But we are today where we are today. And we have been in the midst of a recession, as you rightly point out. But I believe strongly that we have to address this deficit and the debt of the United States as a matter of national security, not only as a matter of economics.

And I am not going to comment on the prerogatives of the Congress to determine how best to do that, other than to say, sitting where I sit today, I would not like to be in a position where the United States is a debtor nation to the extent that we are, with the projections going far into the future, the kind of disadvantages that

that implies for our ability to protect our security, to manage difficult problems, and to show the leadership that we deserve.

So I would certainly think that there has to be great attention paid, and the moment of reckoning cannot be put off forever. But, again, that is within the prerogative of the Congress to determine.

I do not have a lifetime estimate for the costs of the two wars, but we will get that to you based on our best assessment.

But I share the concern that you and others on both sides of the aisle are expressing, and I wish we could turn the clock back. I really, honestly wish we could turn the clock back. Because we threw away the opportunity of not just one lifetime but all lifetimes in our country to put ourselves on the strongest possible financial footing that would have given us and future generations so much more security than we now have financially.

Mrs. LOWEY. Mr. Rehberg.

Mr. REHBERG. Thank you, Madam Chair.

I am going to miss the opportunity to address a couple of the gratuitous comments that have been made by the committee in the opening and some of the responses. Because diplomacy did not end in 2000. It did occur. And I think that you would probably have to agree and admit that. And so, you know, while some of us were new in the Bush administration, diplomacy did occur.

And I had the opportunity to travel with Chairman Kolby and others on this committee and appreciated that opportunity to see some of the great things that occurred, whether it be the MCC Challenge, Millennium Challenge, or the age initiative in Africa, that this administration has accepted and embraced and continues.

And the deficit and the debt didn't grow. We were on a path to reducing the debt. I am sorry we inherited a situation called September 11th. When I first showed up in 2001, I didn't anticipate that we were going to be confronted with an act of terrorism that was not expected. And far be it from me to suggest that maybe the administration before the Bush administration ignored threats and didn't allow us an opportunity to be safe going into September 11th.

So, you know, I would like to see some of the partisan politics that I sense in this hearing, you know, maybe end with my comments and move on to some of the things that are more substantive as far as foreign operations and our relationship with the world and such. So that is part of my comment.

HAITI

The Haitian relief, I want to thank you for the fine work that occurred with the administration.

As far as the orphans issue, one of the things that we saw, and I had parents that were concerned, that we are along in the process as far as the adoption. In some ways, UNICEF became an impediment or a barrier.

Is there a procedure in place that you are looking at or trying to improve the adoption situation for interstate adoption within countries that we deal with for emergency purposes, where, if they are along a certain path and they have an opportunity to be moved through the process quicker for the safety of the children—and I think we all are interested in that—that maybe some of the im-

pediments, the problems—and forget the Idaho situation. That was an anomaly. But there were other situations where Montana parents were ready; they were within days of receiving their children through the process. And whether it was a visa, that the passport had already been granted, they weren't allowed that opportunity, because UNICEF got involved and they seemed to have an inherent objection or opposition to interstate adoption and created a problem for bringing these children out.

Secretary CLINTON. Well, Congressman, I don't believe that UNICEF has any objection to inter-country adoption that we are aware of. We will certainly double-check that.

But on your larger question about dealing with orphans, it is a matter of great personal concern to me and also to the professional staff at the State Department. And what we are attempting to do is move on several fronts simultaneously.

One, we think it is very important to help countries understand how they can better run their own adoption systems. A lot of countries culturally don't believe in adoption. They don't have any experience of adoption, and they are quite skeptical and suspicious of the whole idea.

At the same time, we sometimes move more quickly than other cultures would accept in declaring someone an orphan who might have a relative somewhere down the line, and yet there are no real capabilities in these countries to search for and reunite children with the family members in an extended family.

Haiti was a particularly challenging circumstance because all the records were—not all of them, but the vast majority of them were destroyed. We moved very quickly, and I am very proud of the work that was done, because we have different responsibilities within our government. The State Department, Department of Homeland Security, HHS all have a piece of the responsibility. But if we could get the records which showed that a child was in line to be adopted, we have moved those children. We have moved hundreds of them.

On the other hand, some people got a little overanxious in their desire to help and tried to move children who still had family linkages or for whom there had been no process under way. We are looking hard at what happened and trying to make sure that we have an expeditious but extremely careful process so that we don't inadvertently engage in any transport of a child who indeed does have a family still back in Haiti.

But we appreciate the outpouring of generosity and love that so many Americans have demonstrated for children in Haiti and elsewhere around the world. And we are looking at what more we can do to deal with the whole problem of orphans globally.

Mr. REHBERG. I appreciate that. Because there were some problems that I think could be very easily solved, and we have a relationship and they were along in the process.

Real quickly—and I don't want to get into the argument or the debate about private sector and contracting, because there obviously are problems with contracting. It is why you look at the defense budget. They are every bit as able to pad budgets as any other area. So, you know, I just happen to be one of those that believes in oversight of every single arena out there.

But you are asking for an additional 600 employees of the Federal Government under this budget. Could you tell me, real quickly, how many were in the last budget? If I remember correctly, and this is strictly off the top of my head, there was a request for an additional 2,000 employees in the last budget.

So, were those positions filled? Did you fill the 2,000, and this is 600 on top of the 2,000? Within the last 3 years—or 2 years, actually, we are talking about 2,600 new Federal employees as opposed to the equivalent reduction of private-sector employees through contracting?

Secretary CLINTON. Well, we are putting these positions in the pipeline, and we are filling them, and we are training people. I can get you the exact numbers about where we are in the pipeline.

Mr. REHBERG. I would like that, yes.

Secretary CLINTON. But part of the reason behind this is our assessment, number one, of the needs that we have. And I will just give you a quick example.

You know, we have closed consulates in some parts of the world that are of great importance to us. Our Consulate in northern Nigeria, one of the largest Muslim populations in the world and a source of some religious conflict now, was closed years ago. I think we should have a consulate or at least some office there for the United States to have eyes and ears and hands on the ground there.

So we are moving to identify needs and fill those needs, and we can give you a very specific breakdown. But we are also moving to evaluate carefully contractors. We made a decision a few weeks ago to replace one contractor with a full-time position inside. And when you looked at all the overhead and the costs associated with running the contract, we are going to save hundreds of thousands of dollars from that one position.

Mr. REHBERG. Okay. Thank you.

Thanks, Madam Chairman.

Mrs. LOWEY. Thank you, Mr. Rehberg. And I believe the 2,000 would include both the appropriated positions and the positions funded through passport and visa fees.

Mr. Jackson.

Mr. JACKSON. Thank you, Madam Chair.

And I would like to welcome Secretary Clinton back to the committee and thank her for her testimony.

Secretary Clinton, in order to preserve my time, I am going to ask you a few questions and save a couple of questions for the second round.

Before I go to the specifics of the budget, however, Madam Secretary, the administration was widely criticized for its handling of the Christmas Day terror attack of a civilian airliner. The State Department had information, according to newspapers, from the perpetrator's father before he boarded a plane.

Can you share with the committee—and I understand this question may also be appropriately addressed to the Secretary of Homeland Security. Can you share with us what steps the State Department took to provide information to the Department of Homeland Security that may have been provided by the perpetrator's father to prevent that activity and anything that you might have that will

convince the committee and share with the committee that this won't happen again?

And, secondly, for me, on another subject, it seems that this administration's resolve isn't quite the same as John F. Kennedy's resolve when the threat of weapons of mass destruction were 90 miles off the shore of America in 1962. I was born in 1965, so I missed the Cuban missile crisis, but from my read on history, it garnered a very different response from that administration.

The idea of weapons of mass destruction in the post-9/11 world, however faulty the data, led the last administration to our present conflict in Iraq. The concern that al Qaeda is pursuing weapons of mass destruction has our Nation in pursuit of al Qaeda in Afghanistan and around the globe. But in Iran, we know they are pursuing weapons of mass destruction.

I am wondering how the administration justifies its approach to gradualism in light of the history of past administrations on the question of weapons of mass destruction, particularly when they found themselves off the shores of our country and/or off the shores given their proximity in the Middle East to our critical interests.

And lastly, a broader question about the Secretary's request. There is this mood in Washington that we spend too much. When asked what spending we should cut, inevitably one of the first things mentioned is foreign aid. I don't think some people realize that our foreign policy goes hand in hand with our national security policy. You have cited time and time again that defense, diplomacy, and development need to be treated equally for the U.S. to succeed overseas.

In your testimony, you highlighted some of the administration's development and diplomatic priorities. Can you tell the committee why these priorities are critical to our national interest and our foreign policy be successful if we only emphasize defensive spending?

I thank you, Madam Secretary.

And thank you, Madam Chair.

CHRISTMAS DAY BOMBER

Secretary CLINTON. Well, thank you, Congressman.

With respect to the Christmas Day bomber incident, we have obviously studied very closely what the State Department actions were and what we can learn from that and what changes needed to be undertaken.

The information that was brought to the attention of several government agencies within our Embassy in Abuja was immediately transmitted to the respective agencies, both in the intelligence community, Homeland Security and elsewhere. But as has been studied very thoroughly, there wasn't a connection of a lot of that information.

The gentleman, the father who came in provided information which was followed up on. But the visa wasn't revoked because, at the time, the correct spelling of the son's name was not in the system. And when that information was received on November 19th, that he had a visa, then the revocation consideration was undertaken.

The State Department, before Christmas, was involved in revocation decisions by discussing with the intelligence community whether a revocation would disrupt an ongoing investigation. There have been numerous cases in which a unilateral and uncoordinated revocation would have disrupted important investigations carried out by the FBI, and the FBI has testified to that.

So what we have concluded is that we are going to exercise more immediate discretion even if it disrupts an investigation. So, you know, it is not all on one side or all on the other side.

But you should know, Congressman, that since 2001, the State Department has revoked 51,000 visas, including more than 1,700 with suspected links to terrorism. And, in addition to the revocation authority, consular officers around the world in 2009 refused nearly 2 million visas.

So this is an enormous undertaking. When you sit across from somebody or they are standing at the window in a consulate somewhere, it requires a lot of training and a lot of connecting dots. And some might say, "Well, you know, gee, in those 1,885,000-plus visas that you revoked, there were probably some people who shouldn't have been." Well, yeah, and there were probably a lot of people who should have.

So it is a very difficult set of decisions that our people make every single day. And we have determined that we will take more unilateral authority. We have informed the FBI and others, you know, that that is going to be our policy.

So we are working very hard, along with Homeland Security, along with the CIA, the Director of National Intelligence and others, to be as smart and vigilant as we can. And because of the amount of travel and the numbers of visas, it is an enormous undertaking. And, you know, we do the very best we can, and we are going to keep learning how to do it better.

IRAN

With respect to Iran, we are engaged in very intensive diplomacy. And, you know, my reading of what happened with President Kennedy is that is exactly what he did. It was high-stakes diplomacy. It was hard to get the world community to understand, going to the United Nations, making a presentation, getting international opinion against the placement of Russian weapons in Cuba, you know, making a deal eventually with the Russians that led to the removal of the missiles.

That is the kind of intensive high-stakes diplomacy that I am engaged in, that other members of our administration are, because we take seriously the potential threat from Iran.

Mrs. LOWEY. Madam Secretary, I just want to make one point before I turn to my colleagues.

Unfortunately, the Department of Homeland Security, in my judgment, is not willing to change their policy of a 30-minute review before a plane takes off. Many of us have been pushing for a minimum of 24 hours. And, in fact, the Secure Flight Program, which still is not on line, considered 72 hours.

So I just mention that to my colleague because I just brought it up about half hour ago with the Secretary of Homeland Security, and I think this is something we must push. There is no reason

why you are giving these investigators 30 minutes to review. There will always be stragglers, but I think we have to look at a 24-hour time frame.

Thank you.

Mr. Kirk.

Mr. KIRK. Thank you.

Madam Secretary, I just wanted to thank you again for backing the Afghan surge. You had that shootout with Vice President Biden. He was wrong; you were right. The President sided with you. And the Marjah offensive is going well. We have nailed a number of top Taliban leaders now, and a lot of good news from the troops.

You voted for the Armenian genocide resolution as a Senator. I hope we do that, and I hope the House of Representatives does that and you will let that happen.

I also want to thank you for having Cha-hee Stanfield, a representative of thousands of Korean Americans who haven't met their North Korean relatives, meet with Bob King, and they very much appreciate that.

I just want to briefly call your attention to the plight of Christians in Iraq. We have had a number of killings in the run-up to the election there. It would be an awful shame if, at the end of all this democratization in Iraq, that it had no Christian community. And your continued attention, I would greatly appreciate it.

I want to raise two issues very briefly. The first is, I understand that we are going to do a land swap, and I hope that this committee has no appropriated funds involved in the building of a new embassy in London. Great Britain is our best and most friendly ally, so the need to build a huge and expensive fortress seems to be extravagant.

The report is that this new embassy will cost a billion dollars. And just to recall, the largest building, the new building in Chicago is the Trump Tower. It is a four-star hotel and luxury offices and apartments. The 92 floors of the Trump Tower cost \$847 million. So this proposed embassy in London is 18 percent more expensive than the luxury Trump Tower and 92 floors. It feels a bit like Buckingham Palace 2.0, and that seems utterly extravagant. And I hope you would not request this committee would support this at all, because it seems like we have really run wild in the budget there.

I wanted to raise, though, a separate issue, which is with regard to Iran, that we are not sending a clear signal to the Iranians. And when you look at our policy from Tehran towards Washington, as opposed to Washington to Tehran, here is what you see.

We have a number of sanctions. I have a board here. As you know, in 1996, that the Congress passed the Iran Sanctions Act and said, "If you invest more than \$20 million in the Iran energy sector, you are going to get hit with sanctions." The Congressional Research Service has now listed all of these companies in potential violation of the Iran Sanctions Act.

And this is just the Congressional Research Service did that. Your team said, we will answer the Congress back—about 60 Republicans and Democrats sent you a letter—within 45 days. Feltman had that. We are now about 20 days after that.

If the Iranians see that sanctions on the books are not enforced, then how would any future sanctions in any way be serious, one?

Second, just two blocks from your office on the seventh floor of the State Department, the World Bank is still cutting checks to the Iranian Finance Ministry. So the last administration and this administration are still allowing money to go from the World Bank to the Iranian Finance Ministry. Wow, what a confused signal that Ahmadinejad gets, getting a check cut from 1818 H Street in Washington, D.C., two blocks from the White House.

And, last, we understand that, you know, 400 Members of Congress have now backed the gasoline quarantine legislation in the House and Senate. My word from your team is, we will not support a gasoline quarantine absent a U.N. Security Council resolution.

And with Bill Burns, I took him through a thought experiment. I said, I remember during the Clinton administration when President Clinton very wisely waited for the U.N. Security Council to approve our action in Kosovo before taking military action against Yugoslavia. And he nodded and said yes. And I said, that is absolutely wrong. President Clinton did not wait for the U.N. Security Council. The entire victory in Kosovo would have never happened if we had waited for the U.N. Security Council. There was no Security Council resolution possible. And President Clinton wisely did not wait for the gridlock in New York to stop him from saving 2 million Kosovars.

And so my question to you is, how about actually enforcing the Iran Sanctions Act against the 25 companies that we have already clearly identified in potential violation? How about cutting off World Bank funding to the Iranian Finance Ministry, which is going on right now? And, how about cutting loose from the U.N. Security Council, repeating the great success of your husband, and actually implementing measures which will succeed, as they did in Yugoslavia?

ARMENIA

Secretary CLINTON. Well, first, on Armenia, let me reiterate what the President said last year in April, that the best way for Turkey and Armenia to deal with their common historical past is to address it as part of their effort in moving forward. And there has been a very important dialogue leading to protocols between Armenia and Turkey, which they have signed at a ceremony that I attended in Zurich. And we believe that that is the most appropriate way for the United States to be helpful at this time, is to continue to urge the ratification of those protocols.

LONDON EMBASSY

Secondly, on the London embassy, we are not going to be asking this committee for any money because we are self-financing it from the sale of the existing embassy and the Navy Annex in order to consolidate all of our operations in one place, in a more secure place than the Grosvenor Square embassy.

IRAN

And, finally, on Iran, we did make a preliminary report to the Congress in early February. We will follow that up with a classified briefing. I have taken the responsibilities to examine the situation very carefully, and that is exactly what we are doing.

There wasn't any such inquiries before, in the last 8 years. There was only one finding in the prior administration. So we are going to fulfill the responsibility of looking at it and consulting with the Congress as to what the outcome should be. And I think that we will be having a briefing in a classified setting, which is the appropriate forum for that.

Mr. KIRK. Thank you. And I just hope we follow up. Imagine how confused Ahmadinejad is when he gets a check from the World Bank, from the Obama administration.

Mrs. LOWEY. Mr. Schiff.

Mr. SCHIFF. Thank you, Madam Chair.

And thank you, Madam Secretary, for being here.

I will pick up where my colleague left off and also urge the administration's support for recognition of the Armenian genocide. We have a markup coming up next month, and I would urge the administration to support the legislation and, at a minimum, certainly not to get involved in opposing the legislation. And I don't think that the prospect of reconciliation, much as I would like it to happen, should be used as a reason not to recognize the undeniable fact of the Armenian genocide.

I wanted to discuss with you today—and I just got back from a trip to Yemen, Pakistan, and Afghanistan—the situation, in particular, in Afghanistan. I think we have really the best team assembled there we could possibly have, both in terms of the military leadership and the civilian leadership. And, Madam Secretary, you have some of the finest people in the world working in State Department and USAID there. They are just phenomenal, courageous, committed, wonderful people.

I have a lot of confidence that the military operations will be successful within the scope of what they hope to achieve, that the Taliban can be routed from their strongholds within the next 12 to 18 months. But I have far, far, far less confidence that we can achieve our civilian objective. And not having anything to do with, again, the quality of the people over there, but it seems to me we are dealing with two very different timelines.

We have a timeline militarily, and we have a timeline in terms of helping the Afghans establish the rule of law and good governance such that, when the military leaves, there is an infrastructure and governance there that is strong enough and well enough respected that the Afghan people won't tolerate the Taliban coming back in. And that is the "hold and build" part of the plan.

And so my question is, are these timelines so different that they are going to come in conflict 12 to 18 months from now? It seems to me you would need an escalation or a surge of probably 30,000 State and USAID, Justice Department, Agriculture Department and Commerce Department civilians in Afghanistan to try to deal with the corruption in the Afghan police forces, the maladministra-

tion and corruption of the government. We don't have the capacity to do that.

So what happens? If the governance is still so fragile, how do you continue with that work without having the military there in such numbers to maintain the security?

AFGHANISTAN

Secretary CLINTON. Well, Congressman, I hope you and all the members of the committee have received a copy of the Afghanistan and Pakistan Regional Stabilization Strategy, which we have submitted to the Congress, because it goes into great detail about everything we are doing, from agriculture to health care to education to women's rights.

And, obviously, we are working closely with our military counterparts, as they heroically take on the Taliban alongside not only our international partners but, increasingly, the Afghan military.

This is a very challenging undertaking, but there has to be a transition from the international force, the NATO ISAF force, to the Afghanistan people themselves. That is why we are emphasizing the training of the military and of the police. We are working, I think successfully, to make clear that we need good partners and that President Karzai, his government, as well as the military, have to do their part. And there are places in Afghanistan that we could transition to civilian rule today, and there are others where we still have a lot of work ahead of us.

But we have a plan. We are going to do the best we can to implement that plan. I understand the questions that you and many others have, because this is a very hard undertaking. So I don't want to in any way underestimate how difficult it will be.

Mr. SCHIFF. If I could refine it, just very quickly. Do you think, in the 16 to 18 months of the increased military support there, that in these safe havens, or former safe havens like Marjah, that on the civilian side we can establish a sufficient rule of law and good governance such that, when we downsize our military presence, the Taliban won't simply come back in because the Afghans are so fed up with the corruption of the Afghan Government?

Secretary CLINTON. That is our goal, and that is what we are working to put into place. But, ultimately, the future of Afghanistan is up to the Afghans. You know, they are going to have to stand up and demand the kind of accountability from their government and the delivery of services.

We are doing all that we know to do to create the conditions for that. But, at the end of this process, there has to be a government that is functioning and effective and has the support of its people. And there is no way completely to predict that. But we are doing the very best we know to do to try to create the conditions for it.

Mr. SCHIFF. Thank you, Madam Secretary.

Mrs. LOWEY. Mr. Crenshaw.

Mr. CRENSHAW. Thank you, Madam Chairman.

And thank you for your testimony today.

I have two questions, one is about Iraq and one is about Haiti.

But, on balance, I think what is happening in Iraq is obviously positive. But, as you know, in the last year, what happened at Camp Ashraf is really troubling to an awful lot of people. I mean,

once the Iraqi Government took over there, I guess it was back in June, the rage that occurred and just the awful, deplorable situation that took place there. And now to say we are going to move those 3,400 folks to some detention center certainly has got a lot of people's attention.

Because it is not just about Iraq; it is about Iran. And, as you may know, I think 172 Members of the House have signed on as cosponsors of the resolution basically deploring that activity by the Iranian forces, calling on Iraq to live up to its commitment to provide security and then also providing for the United States to take necessary action to kind of provide for their security.

So I wanted you to give us an update on the current status of that situation.

And then quickly about just Haiti, it seems to me that out of that terrible, terrible situation there is an opportunity for some good to happen in Haiti today. And, with all this tremendous outpouring of international assistance from both private and public, is there any one entity that is kind of emerging as an entity to kind of coordinate all of this foreign assistance in both private and government? And as part of that, are there procedures being put in place to make sure that everything is being accounted for and being transparent?

And, finally, the third part of that is what is your view of the government there in Haiti and their ability to kind of rise up and be a partner with all this international assistance?

If you could comment on those two, I would appreciate it.

CAMP ASHRAF

Secretary CLINTON. Thank you, Congressman.

You know, we are aware of the recent reports about difficulties in Camp Ashraf, and we have looked into these assertions. It is our conclusion that adequate food, fuel, and medical supplies are reaching the MEK members in the camp. Family visitation is not being blocked by Iraqi Security Forces. Foreign governments are able to conduct visits to the camp for any resident claiming third-country status. Yes, the Iraqi Government still has the stated goal of removing the MEK from Ashraf to another location, but there is no date for doing so.

And our policy toward the MEK can be summarized briefly as follows: They are not refugees. They are not protected persons under the Fourth Geneva Convention. They are not providing valuable information on Iran to our government. However, we do support their human rights. We have repeatedly told the Iraqi Government that we expect their human rights to be protected.

We have, in prior administrations, designated the MEK as a foreign terrorist organization. We do support Iraqi sovereignty over Ashraf. And we do hold the Iraqi Government responsible for how the members of the MEK are treated. And we expect the Iraqi Government to honor its written assurances that it will treat the MEK members humanely; it will not forcibly relocate them to any country where they could be persecuted for religious or political beliefs or where they could be tortured.

And we support international participation in trying to resolve this matter. So there is a lot of information coming from all direc-

tions. We have tried to be very careful in evaluating what the facts are. And, to the best of our ability, that is a brief summary.

HAITI

With respect to Haiti, there is going to be a coordinating entity created. It will be a combination of the Haitian Government and the United Nations, along with a committee on which the United States will also participate. There will be measures of accountability that we are putting into place. There will be a conference on March 31st at the United Nations, cosponsored by the United States and other major donor countries, to lay out the way forward.

The Haitian Government's ability was severely impacted by the earthquake. They are trying to kind of get themselves organized and focused, but it is a very difficult challenge for them, and we are doing everything we can to help them. They are very grateful for the aid, both the military and civilian aid, and presence on the ground from the United States.

So we have a big task ahead of us to try to help them take more responsibility, but to do so in an accountable way with sufficient oversight for the foreign assistance funds that are going to flow in.

Mr. CRENSHAW. Thank you.

Thank you, Madam Chair.

Mrs. LOWEY. Thank you.

Mr. Israel.

Mr. ISRAEL. Thank you, Madam Chair.

Madam Secretary, we really miss you in New York.

Secretary CLINTON. Oh, Steve.

Mr. ISRAEL. We really, really miss you in New York.

Madam Secretary, two questions.

One, last year this subcommittee provided USAID with \$10 million to stand up a solar village initiative which would help catalyze microfinancing for renewable solar projects in the developing world. I would just like a brief status report on that.

SOLAR VILLAGE

Secretary CLINTON. Well, we support the solar villages, and we welcome your interest and your initiative on the solar villages. In fact, I thought you might ask about it, and I brought a quick update for you, Congressman, because it is the kind of innovative approach that we support.

The \$10 million which went to USAID Clean Energy funds are being used for microfinance renewable energy programs. And we want to work with you to determine the final country allocations because of your interest. And so I have directed that USAID reach out to you and let you know exactly what we are doing with that money.

TURKEY

Mr. ISRAEL. Thank you. I appreciate that.

Let me turn to Turkey, if I may, Madam Secretary. I am very concerned with the direction of Turkey. It seems to me, at least, that Turkey is contemplating a fundamental realignment. With respect to Iran, Turkey has exhibited irresponsible behavior, in my

view, undermining international efforts to slow Iran's march to nuclear weapons, defending Iran's position. Prime Minister Erdogan, back in October, asked why those who were talking about nuclear weapons always pick on Iran; increasing volume of Turkish investment and trade with Iran.

On Israel, October of 2009, Turkey cancelled air force joint exercises with Israel, publicly attacked President Shimon Peres. On Cyprus, Turkey renews its insistence on elements of a Cyprus solution that no western democracy could ever agree to, continues an illegal occupation, digs in. On Darfur, denied the Darfur genocide. Prime Minister Erdogan said, "It is not possible for those who belong to the Muslim faith to carry out genocide." Tell that to people of the Muslim faith who have been annihilated by that genocide.

We have talked about Armenia. And, finally, on the ecumenical patriarch, Turkey's history of religious intolerance continues, confiscating the property of the ecumenical patriarch, defying the values of 300 million orthodox Christians.

It just seems to me that this is a fundamental reversal of Turkey's role in the world and in the region. And I am curious as to whether the State Department is engaging in a reassessment of our own relationship with Turkey in view of what seems to be Turkey's reassessment of its relationship with us and the rest of the world.

Secretary CLINTON. Well, Congressman, let me put our relationship with Turkey in as broad a context as possible, because we believe we share a vital partnership, common strategic interests and, of course, membership in NATO. From the Balkans to Afghanistan, we are working together. Turkey has embarked on a very ambitious foreign policy, working to try to reach normalization with Armenia, trying to solve problems in its neighborhood.

In the NATO context, Turkey is a key contributor to our ISAF efforts in Afghanistan. Turkey contributes nearly 1,800 troops. It commands a regional command. It maintains a PRT. It is going to have another PRT. It also contributes 500 troops to Kosova's NATO forces. It is part of Operation Active Endeavor patrolling the Mediterranean. It has been a key contributor to Operation Ocean Shield, which is NATO's counter-piracy mission, and helps patrol the Black Sea through Operation Black Sea Harmony.

Now, with respect specifically to Iran, Turkey shares a long border with Iran. It has a lot of cultural and religious ties, a lot of commercial ventures with Iran, and it has access to many of the Iranian decision-makers. So Turkey has been very involved in, you know, trying to influence Iranian actions. It has expressly opposed Iran's acquisition of a nuclear weapons capability and its aggressive regional policy. And we have worked very hard to move the Government of Turkey to a point where it will assist us in pressing Iran to respond to our demands.

With respect to Israel, Prime Minister Erdogan, based on humanitarian grounds, criticized Israel's closure of Gaza. Then a cabinet minister, Ben-Eliezer, visited in late November to meet with the Turkish Government. And I think, since that meeting, the government's criticism has been noticeably muted. But then there was a slight by the Israeli deputy foreign minister of the Turkish ambassador during a mid-January meeting, which again created and

reignited tensions. Those were dampened when Defense Minister Barak went to Ankara.

Both countries have confirmed their commitment to a strong bilateral relationship between Turkey and Israel. And, as you know, Congressman, Turkey was very involved in supporting Israel until Gaza, and then the events back and forth since then. But I think both countries are trying to get back on track with their relationship.

We also share the concern about a resolution in Cyprus. And we have urged and worked with Turkey to support a settlement of Cyprus. Actually, the very intense negotiations that the Greek and Turkish Cypriots have engaged in have been publicly supported by Turkey.

There is a lot that we have to do. And let me just conclude with the references to the ecumenical patriarch and to orthodox Christianity, particularly the Halki seminary. We continue to urge the Turkish Government to reopen the seminary. The President has called for it. I have called for it, both of us in Turkey and in the United States to protect and safeguard the patriarch's property rights. And there still is a very vigorous discussion going on about this. And when the patriarch visited and I hosted him at the State Department, we discussed that at length.

So there is a constant, ongoing consultation. But I think that the context of the relationship and actions is even more concrete and perhaps complex than either of us has recognized.

Mr. ISRAEL. Thank you.

Mrs. LOWEY. Ms. McCollum.

Ms. MCCOLLUM. Madam Chair, I would like to yield at this time. I am checking facts on something because I think facts are very important to this committee, and I hope to have something to share shortly.

Mrs. LOWEY. Ms. Lee.

Ms. LEE. Thank you very much, Madam Chair.

Good afternoon, Madam Secretary.

Let me just say, like all of us, I have been greatly encouraged by the Obama administration's support for rebuilding the capacity of the State Department and its commitment to utilizing diplomatic engagement as a means of reducing the risk of conflict and ensuring that the United States takes a leadership role in solving some of the most serious problems and sources of tension around the world. And your leadership, I just have to say, has been so instrumental in reshaping America's image and role in the world. And, for that, I am really, deeply grateful.

I recently returned from traveling as part of a bipartisan congressional delegation to the Gulf region led by our esteemed Chair, Chairwoman Nita Lowey. And it was quite an amazing visit. You were there during that period. We learned a lot. It was an eye-opener. And I just have to thank, again, Chairwoman Lowey. It was bipartisan, and it was very, very enlightening.

IRAN

During this visit, Iran's nuclear program and the destabilizing force of a potential nuclear weapons capacity in that region was discussed, and it was really a source of an intense discussion. The

weekend of our return, though, I think it was February 19th, a Wall Street Journal editorial on Iran concluded—and this is just a quote from that editorial: “Finally, the option of a military strike will have to be put squarely on the table.”

Of course, I am a strong opponent of the use of military force, but this suggestion deeply troubles me. The possibility of sanctions I don’t believe should ever be viewed as a checkmark, you know, on the path to war, which is what, actually, the Wall Street Journal editorialized.

Admiral Mullen recently expressed concern that a military strike in Iran would not be decisive, that diplomatic levers would be preferable, and that such a course of action would carry unintended consequences.

So am I correct in characterizing the administration’s position that a military strike in Iran is neither appropriate nor preferable to other means of resolving this challenge? I mean, you know, I was very troubled by what the Wall Street Journal wrote.

Secretary CLINTON. Well, Congresswoman, the administration has consistently said that all options may be on the table, but we are trying to set the table with sanctions, with pressure, to change the behavior of the Iranian regime.

That is our focus, that is what we are planning, that is what we are doing. And I think, you know, for all the reasons that Admiral Mullen referred to, that is our preference, that we proceed as vigorously and intensely as we can to create the conditions for the Iranians’ change of behavior.

HAITI

Ms. LEE. Great. Thank you very much for that.

With regard to Haiti, first let me thank you, your team, the leadership of your chief of staff, Cheryl Mills, for the response, the coordinated response, as it related to the tragedy in Haiti. They were, quite frankly, phenomenal. And we were able to do quite a bit, as Chair of the Congressional Black Caucus, to work with your team to help expedite the badly needed resources.

I wanted to ask you—and I know that we have been in conversations about this, and we forwarded you a letter about the Haitian American community, Haitians in the diaspora, finding an organized and structured vehicle for Haitian Americans to return to Haiti to provide technical capacity-building assistance in fields critical to reconstruction and development.

And so I have a bill, which I have shared with your staff, H.R. 417; it is called “The Next Steps for Haiti Act.” And that would create such a mechanism for establishing a USAID-housed effort that would do just this. And I would like to ask you for your consideration for that, because I think organizing in a way that is financed, the Haitian American community to return to Haiti to do this, would be very helpful.

Secretary CLINTON. Well, we will certainly take a close look at your bill. We share your goal of enlisting the expertise and experience of the Haitian American community, and we are looking for ways to do that.

Ms. LEE. Thank you.

And just one more point I would just like to raise, and I want to thank you for your help. You know, the three hikers that are in Iran, we discussed this when we were in the region somewhat. They were students, you know, in my district, University of California, and one is one of my constituents.

And I am wondering if there is anything that you know that you could talk about that would give us a little bit of hope. I heard that the families may be allowed to visit them. That was the last I heard. But is there any movement at all, from your vantage point?

Secretary CLINTON. Well, we push every day, because we think it is so baseless and unfounded to hold these three young people. And we have called on the Iranian regime to release them on humanitarian grounds and, certainly, to permit as much access while they are detained to family and loved ones. But I have nothing to report.

Ms. LEE. Okay. Thank you very much.

Thank you, Madam Chair.

Mrs. LOWEY. Mr. Rothman.

Mr. ROTHMAN. Thank you, Madam Chairman.

Madam Secretary, it is always a great pleasure to see you. And let me say, from what we have seen so far, it is my opinion that there has never been a more effective or smarter Secretary of State in the history of the United States than you, Madam Secretary.

Secretary CLINTON. Thank you.

Mr. ROTHMAN. We are enormously proud of you and grateful for your service. You are indefatigable, and you are extraordinarily effective for our country. Thank you.

It is no secret that Pakistan possesses nuclear weapons. It is, I think, equally not a secret that if those Pakistani nuclear weapons were to fall into the hands of radical Islamic terrorists, that just before that happened India probably would take steps to prevent that, which makes that region very volatile and makes relations between India and Pakistan so critical.

So I am interested in your view as to how their relations are these days. And does Pakistan understand, the military and the government, how unacceptable it would be and how catastrophic, in terms of inviting a conflagration in the region which would affect the world economy, et cetera, and millions of lives, if they were to not do what was necessary to prevent terrorists from overthrowing the Government of Pakistan and acquiring Pakistani nuclear weapons?

Secretary CLINTON. Well, Congressman, that is an extremely important issue, and it is one that we take as a very high priority in our efforts with both countries.

We are heartened by the fact that they are resuming a dialogue. They made progress in the last dialogue between then-President Musharraf and Prime Minister Singh. It was suspended when Musharraf left office; it is now only being resumed. I think both countries realize that there are lots of important issues that only they can resolve between them. But the United States has encouraged the dialogue, and we obviously hope that it will be productive.

With respect to Pakistan's actions, we have been encouraged by the results of military and intelligence operations over the last several weeks. It resulted in the capture and detention of some of the

key members of the so-called Quetta Shura, very high-ranking Taliban leaders, right up there with Mullah Omar. We have also been encouraged by the Pakistani military's successful efforts to rout the Taliban from their own country, from Swat to North Waziristan. And we are working very closely with the government, both the democratically elected government and the military and ISI.

But we believe that the people and Government of Pakistan have, over the course of this past year, since I was last here, understood the direct threat to their state's survival posed by the extremists inside Pakistan; that it is not a problem for someone else; that they are operating out of Pakistan; that given the brutality and the horrific attacks launched against mosques, markets, universities, volleyball games, police stations, ISI headquarters, this has now been seen for what it is: a direct assault on the sovereignty and capacity of the Pakistan Government.

So I am actually quite pleased to see the very vigorous response coming forward.

Mr. ROTHMAN. And that is—I hate to use this word or expression, “trickle down,” because I normally don’t accept that view. But the general population in Pakistan gets that, Madam Secretary?

Secretary CLINTON. It is our impression that, if that were not the case, the government and the military would not be proceeding. And—

Mr. ROTHMAN. May I just go on to one—

Secretary CLINTON. Yes.

Mr. ROTHMAN [continuing]. Fast other question, but it is a powerful one, I think. The President's request in the Middle East includes \$400 million in economic assistance to strengthen the Palestinian Authority as a credible partner in the Middle East peace and continue to respond to humanitarian needs in Gaza—\$400 million.

The Palestinian Authority recently celebrated the birthday of the Palestinian Authority by naming a square in Ramallah in honor of the terrorist who killed 37 Israelis when that terrorist hijacked a bus in 1978.

The Palestinian Authority Prime Minister Salam Fayyad also honored a terrorist who just killed an Israeli by stabbing him through the window of his car and went to pay a condolence call to his family—the murderer's family. And finally, in a sermon aired on Palestinian Authority television on January 29, 2010, an unnamed imam made hateful remarks equating Jews with Nazis and saying that Jews are the enemies of the Palestinians and that the Jews must be killed. This is on Palestinian Authority television as recently as January 29, 2010.

Are you satisfied that the Palestinian Authority is, A, going to be a partner for peace with our number one ally in the region, the State of Israel, at this stage given what has just recently occurred, and/or that the Palestinian Authority is taking the steps to end the incitements and the hatred and incitement to murder that is just going on right with their consent under their authority?

Secretary CLINTON. Well, the United States continues to reinforce to the Palestinian Authority leadership that all acts of incitement should be avoided and condemned no matter when and where they happen. We consider incitement still to be a problem, but we

believe that the situation is much better than it was in the past. And in light of that, in response to the televised sermon that you were referencing this past Friday, the Palestinian Authority immediately told the United States Government that the speech was inconsistent with Palestinian leadership's support for a two-state solution, that it did not represent the policies of the Palestinian Authority. And then this past Friday, a sermon promoting religious tolerance was delivered in all 1,800 West Bank mosques by direction of the of Palestinian Authority.

So we see much greater sensitivity. We see fewer incidents of incitement. We still take every single one of them seriously.

Mr. ROTHMAN. Thank you, Madam Secretary.

Thank you, Madam Chairman.

Mrs. LOWEY. Are you ready, Ms. McCollum?

THE WORLD BANK

Ms. MCCOLLUM. I am ready, and I thank the Chair for her patience, and I know my colleagues were happy to go before me.

Madam Secretary, I want to, for the record, get something straight. I wanted to learn more about how the World Bank functioned, and so I became very involved in learning more about the World Bank. It is not a perfect organization. I have disagreements with it at times. But Mr. Kirk's statements here about the World Bank were misleading and, in my opinion, were outright false.

The World Bank has most of its projects closed with the country of Iran. There are two that remain open that they are completing. These deal with the poorest of the poor in Iran. They deal with water, potable water, for children and families to drink and for sanitation. That is it. There aren't any others in the pipeline.

And I am going to read from the World Bank's Web site right now. "Does the World Bank Group follow U.N. sanctions on Iran?" And it goes on to say, Yes. An independent United Nations specialization agency and multilateral development bank, the World Bank Group fully complies with U.N. sanctions with Iran and reviews payments and contracts under the World Bank financed projects to ensure that no loan, no funds are used to finance goods prohibited by the U.N. sanctions or for payments to designated entities or individuals.

And I have been present, as many of us, when President Zoellick has been here, and those questions have been put to him before, and he has repeatedly stated World Bank policy. And I just felt that I had an obligation, having been present at those conversations, to set the record straight. So I thank the Chairwoman for her indulgence and letting me get the facts.

Madam Secretary, I would like to begin now on a lighter note by applauding the work that you have done to reestablish the United States as a global leader in human rights. I am so excited that you are speaking out against child marriage in Yemen; that you are pressing Internet freedom in China; and you are taking an aggressive stance against the atrocious, just terrible legislation in Uganda to punish its gay and lesbian citizens. You are making the light shine brighter on the Statue of Liberty. Thank you so much.

And I also want to applaud your work with Special Envoy Mitchell, your engagement in the Middle East, and President Obama's

leadership on this is good. I am very pleased to see that we now have an ambassador back in Syria, and that we are engaging Syria as a partner to bring Syria into the peace process.

GLOBAL FOOD INITIATIVE

I would like to take the little bit of time I have remaining to talk about global food security. The fact that 1 billion people around the world are struggling with chronic hunger is a moral issue, it is an obstacle to development, it is a strategic concern, and you have shown great leadership in this. Just this past September I was in Guatemala where 50 percent of the children are physically and mentally stunted because of undernutrition.

It is no doubt that food security is the foundation of all the other developmental interests that we make. If students are hungry, they can't learn in school. If parents do not have proper nutrition, HIV medications don't work. So I support the commitment that the President and you have made to develop a comprehensive food global security strategy.

Last year I advocated on this subcommittee for reasons needed to support new food security initiatives. Before we make decisions about a second year of funding, this committee needs to see a detailed plan, however, on how and where the fiscal 2010 funds are being invested. So my first question is when can we expect to receive this information? And then, as you know, I am working with Senator Lugar on the Global Food Security Act legislation that will authorize this major new foreign policy initiative. Could you please talk to all of us about your plans for engaging with this committee and with Congress to create the support we need to make this new Global Food Security Initiative successful?

Secretary CLINTON. Congresswoman, thank you very, very much. And thank you for actually believing in facts and sharing those facts with all the rest of us.

On the Global Food Initiative, we are looking forward to briefing not only this committee, but others in the Congress, the Hunger Caucus and the like, who care deeply about this important initiative. We will try to get that set up as soon as possible now that the budget is up so that we can demonstrate to you what we are spending money on and what the way forward will be. But we very much appreciate your personal commitment, your work with Senator Lugar on this issue, because we consider it one of the most important initiatives of the Obama administration.

With respect to Senator Lugar's legislation, it very much tracks with the plans that we have. We think that focusing on small holding agriculture plots, focusing on women who are on average 70 percent of the farmers who are actually farming those small plots, working on technological improvements like better seeds, better irrigation systems, will put together the comprehensive approach to give us the chance for a second green revolution. That is our goal.

You know, the United States was the driver of the first green revolution. Norm Borlaug won the Nobel Peace Prize for his unbelievably effective work in leading that effort. So we want to have the same kind of impact, and I look forward to having you briefed and working with you as we go forward on this together.

Ms. MCCOLLUM. Thank you.

Thank you, Madam Chair.

Mrs. LOWEY. You were very patient, Mr. Chandler.

Mr. CHANDLER. Thank you, Madam Chairman.

And, Secretary Clinton, I am going to get in line behind my colleagues and thank you for taking on what I believe is maybe the most difficult job that our country has to offer, and for handling it with great aplomb.

I am going to try to ask you a question that you may find simple to answer, and you may find it very difficult. It is very broad. So you can handle it any way you want to.

I think most of the American people believe that our main enemy in the world today is Islamic fundamentalism. We see it crop up in many different places. The Muslim world stretches, of course, in one form or another essentially from the Philippines all the way to Morocco, and it covers a very large swath of the human population on the planet. It seems like we see one fire after another breaking out in different parts of that world. Of course, we have got the dramatic fire in Afghanistan and Pakistan. We deal with fires in Iraq. We deal with fires in the West Bank, in Gaza and Israel, Yemen, Somalia, all sorts of places. And it seems to me that at any given time fires can break out anywhere, and we have to deal with them. That may just be the way it is, and it may be the best way to approach the problem.

But I was wondering if you could give me as concise an idea as you can about a broader strategy that our country is involved in to try to combat this problem overall. It is a very—again, may be a necessary way to combat it, to fight it country by country, but it is a broad problem that is very expensive when you do it that way, and I am wondering if the administration has a larger, more cogent plan to deal with this.

Secretary CLINTON. Well, Congressman, I think that the President's vision of outreach to the Muslim world is really at the core of his strategic approach. There are more than a billion Muslims, and the vast, vast majority of them live peacefully, care about everything we care about, from, you know, getting their kids off to a good start in life to finding a good job, to taking care of their parents. I mean, it is a small but lethal group of extremists who pervert Islam for the purpose of seizing power, settling grievances, imposing very strict rules on women. They do not reflect the vast majority of their fellow religious believers.

So when the President spoke in Cairo, it was to send a very clear message: We are not at war and we are not against Islam. We are not even against Islamic fundamentalism. I mean, people of different religions have different levels of beliefs. We are against terrorists and the use of terrorism to kill innocent people, to intimidate and turn the clock back on the rights and opportunities that all people, particularly women, should be entitled to.

So there are many aspects of our strategy that follow up on the President's vision. How we work in Indonesia is not how we work in Yemen. How we work in Pakistan may not be what we do in Senegal. And I think it is rooted in your question that we look at the full range of opportunities we have to strengthen, deepen and broaden our relationships with Muslim majority countries, and that is exactly what the President has in mind when he speaks about

the American relationship with the Muslim world. Next month he will be going to Indonesia, a country that he knows well, and the country that has the largest Muslim population in the world.

I think that our goal is to demonstrate clearly that we are only focused on those extremists and terrorists who choose to pervert religion, who choose to pursue political gain and power in the cloak of religion, and that we will seek them out. We will find common cause with other countries to prevent them from gaining ground and finding safe haven to assault innocent people anywhere.

Mr. CHANDLER. Thank you.

Mrs. LOWEY. Well, we have you for about 10 more minutes, Madam Secretary, and you have extraordinary endurance. You can see the admiration for you on both sides of the aisle. And for those of us who have traveled with you, we see the courage in speaking out against corruption, and, on the other hand, the average person looks at you as a rock star. So we are, again, I want to say, very fortunate to have you representing our country. We are going to have to take a quick second round.

Several of us have talked about the difficulty in passing this budget. Even though we know on this committee how difficult it is to send the message, we all agree that it is very important to national security. So I would hope that you and the President would use your skills, which you have been very successful at in the 47 countries you have visited, to convince the American public that this is an issue of national security.

A couple of short, quick questions, and one is directly related to the issue of our economy. Iraq has the largest oil resources in the world, yet it doesn't have the ability to maximize its resource to generate wealth by increasing production, and export levels are severely handicapped by factors within and outside the government's control. And there are things that Iraqis can do now to improve oil production, including fighting corruption, passing hydrocarbon legislation to address legal uncertainties, increasing cooperation between the Kurds and central government.

Now, I understand there is a successful second round of bidding for oil service contracts in December, showing some progress, yet serious challenges in the oil sector remain. So what are the realistic prospects for the expansion of Iraq's oil production over the next 5 years? What are the major challenges Iraqis need to overcome in order to meet the oil production expansion goals?

The United States has provided \$53 billion since 2003 for the reconstruction of Iraq. The President is requesting \$1.2 billion for police training, institution building, economic performance and essential services. So I would like to say, in light of their wealth, it is time they started paying for these services themselves. Can you respond?

Secretary CLINTON. Yes. Thank you.

You are right. Iraq conducted two successful oil bid rounds in 2009, but the significant increases in oil output and revenue are still several years in the future. It is going to take probably a decade for some of the less developed fields to come on line. Others will be coming on line within, we hope, 3 to 5 years with greater production, and the Government of Iraq has to significantly improve its infrastructure to handle the increased output.

Now, the Iraqis are increasingly using their own resources to fund themselves. And their funding now does exceed the United States in terms of their commitment to their own development and reconstruction. In 2009, just this past year, the State Department adopted guidelines for the Iraqi Government matching of assistance funds which requires the Iraqis to match at least 50 percent, and the Iraqis have already matched or exceeded State foreign assistance funds. We have an ambassador in Baghdad who is devoted to making sure that the Iraqi Government enforces the matching requirements, and we conduct a yearly review of all activities to ensure Government of Iraq cost sharing. And on the security side, Iraqi spending has already exceeded the Department of Defense's funds since 2006. Iraq spent \$9.6 billion on its own security last year. It is budgeted to spend \$11 billion in 2010, far exceeding our spending.

So we are on the right trajectory. We just have to keep everybody pointed where they need to go.

Mrs. LOWEY. Thank you. And I know that we will be wanting to follow this issue, and we appreciate the numbers, and we look forward to continuing the conversation.

Ms. Granger.

Ms. GRANGER. Thank you. Before I ask just a brief question, I want to say that as the co-chair of the Turkey Caucus, I certainly share the Secretary's statements about the importance of U.S.-Turkey relations and Turkey's importance to the region and certainly to our efforts in Afghanistan.

PAKISTAN

I have one question having to do with Pakistan. This subcommittee has provided significant funding, \$1.2 billion, for non-military aid to Pakistan in fiscal year 2010. That is roughly triple what was provided in fiscal year 2008, and there is now a new request for \$344 million in the fiscal year 2010 supplemental. I understand there is significant money still in the pipeline, unspent funds from prior years. I would like to know how much of that is unspent, and if it is unobligated and unspent, then why is there an emergency appropriation needed?

Secretary CLINTON. Congresswoman, I will have to take that for the record. We will get back to you immediately because I don't know the exact amount that might be unspent. I don't think there is much, if any, that is unobligated. But let me get to you specifically what is unspent.

Ms. GRANGER. Thank you, Madam Chair.

Mrs. LOWEY. Thank you.

Mr. Schiff.

Mr. SCHIFF. Thank you, Madam Chair.

Madam Secretary, I wanted to applaud you and Ambassador Holbrooke for the new approach to foreign aid that you have initiated to try to bypass some of the Beltway bandits and get foreign aid out of the Beltway and use indigenous nonprofits to help do the work, particularly in Pakistan. And I hope it is a policy that will be replicated around the world in terms of our foreign aid program. So I am a full supporter.

I do think there were some substantive questions that were asked, and I had a chance to meet with some of our staff about it and have a discussion about the pace of moving in this direction. And I think it was Dr. Cullitson wrote a dissent through the State Department channels about some of the concerns he had expressed that there wasn't the capacity, for example, in Pakistan and maybe Afghanistan to undertake this effort so quickly.

I am all for doing this as fast as it can possibly be done, and I think it is a great move. But I wanted to get your sense and how you think it is going, whether—I don't know if those concerns have percolated to you, but whether you think there is any legitimacy to them and whether any retooling needs to happen.

Secretary CLINTON. Well, Congressman, I certainly think it is quite challenging to identify, vet, fund, hold accountable, subject to oversight new recipients of aid. That includes the Afghanistan Government where we have a process where we are certifying ministries. If we believe they can be held accountable for money we give them, we do so, but there are very few that yet have met that standard for us. Two of the NGOs that are on the ground actually performing the functions—which is one of the reasons why we are trying to get more aid in a direct line so it is USAID personnel on the ground, State Department personnel on the ground. But it is challenging.

And similarly in Pakistan, there were a number of decisions that had been made in the past to fund very worthy organizations to provide services, education, rule of law, and training those kinds of important programs. But, the circumstances under which they operated were practically impossible. So even the best-intentioned, best-trained, most honest grant recipient couldn't get into the FATA, couldn't deliver the services.

So there are security problems, there are corruption problems, capacity problems. But we did make the decision to look at every single grant and just hold them to the highest possible standard. We will continue to do that. But we have undertaken a very big task to try to supervise where the money goes and then try to find what the results are so that we can tell you that we are actually making progress. But I don't know any other way how to proceed.

And again, I would hope that you and others would look at this regional stabilization strategy so that you can see what we are trying to do and also see the results, because, you know, there are a lot of positive things that we have gotten done: the National Solidarity Programme, which I know this committee supports.

But, for example, one of the first questions that I got when I came to the Congress last year is, Why don't we do anything about Afghanistan's agriculture? And I said, We are going to. That is one of our highest priorities. Well, now we have 89 agricultural experts on the ground, 64 from USDA, 25 from USAID. We have a rapid response team where USAID is issuing vouchers to farmers in 18 provinces, and in particular Helmand and Kandahar, for them to get better seeds and better fertilizer and the like.

I mean, we are really moving on the ground, but sometimes the complexity of what we are trying to do kind of interferes with us delivering both sides of the story, what we are doing and how suc-

cessful it is, yet how far we have to go. But that is the full range of what we are trying to get our arms around.

Mr. SCHIFF. Thank you.

Mrs. LOWEY. Madam Secretary, you have been very generous with your time. We have one, two, three, four, five, six Members.

Ms. MCCOLLUM. I have to go to Budget, Madam Chair.

Mrs. LOWEY. We have five Members who are signaling they would like to ask you a question. If they can control themselves and ask the question in 1 minute, would that be good for you?

Secretary CLINTON. Yes; 1-minute question and 1-minute answer, we will try to do that.

Mrs. LOWEY. Okay. Mr. Rehberg.

Mr. REHBERG. Thank you, Madam Chair. And I assume we can ask unanimous consent to keep the record open for a period of time so we can share additional questions with the Secretary.

MCC

I have more on UNICEF and orphans in Haiti and such. My question is quick. Having been a former executive branch person who—I separated a program very popular to our administration which at that time was the Consensus Council. After our administration left, it got moved back into an agency, and it ultimately disappeared. I look at some of the press on the MCC, or the Millennium Challenge, and I see that there is some movement on the part of the administration to consider moving that independent agency back into another agency rather than it remaining independent. Can you give us some assurances? Because your request is the lowest that we have ever seen from the Millennium Challenge. It is not as low as we have appropriated it, but it is the lowest request that we have seen. Could you give us some assurances that that is not going to be rolled into another agency and then ultimately—

Secretary CLINTON. Congressman, we have no such plans, and I believe we have a significant increase for MCC this year. Am I looking around here? Yes, we have a 15 percent increase in our budget request.

Mr. REHBERG. Mine shows 1.28. Is that not correct? Well, I don't have it in front of me right this minute. Our appropriations was 1.1-, but that wasn't the request from the administration the last time.

Secretary CLINTON. Well, we will get you the—but rest assured, I support MCC. I Chair the Board. I have frequently spoken about the merits of MCC.

Mr. REHBERG. So the press reports are just speculation that it is going to be moved to a different agency?

Secretary CLINTON. Well, I can't imagine that there would be anything wrong in any press reports. So I don't know how to respond.

Mr. REHBERG. I just wanted to make sure that that press report was wrong.

Secretary CLINTON. Yes, sir.

Mr. REHBERG. Thank you.

Mrs. LOWEY. Just for the record, we were at 1.1- last year. I think you have asked for 1.27-. And it is my recollection that the

administration asked for a very generous amount. The Senate cut it back tremendously, and in negotiations we have managed to bring it up a little bit. But I know there will be a great deal of discussion on that issue and focusing on——

Mr. REHBERG. Well, that was my point. They asked for more before, and the Senate or—I was just wondering why the reduction on their ask.

Mrs. LOWEY. Maybe they were just being more realistic, but you can certainly request that of the Secretary.

Ms. Lee.

PEPFAR

Ms. LEE. Thank you very much, Madam Chair.

Very quickly, let me just thank you, first of all, once again, for bringing on Dr. Eric Goosby to run our global programs through the President's Emergency Plan for AIDS Relief. Of course he is a constituent, but he is a phenomenal person, and thank you so much for that.

Let me just ask you about PEPFAR, the Global Fund, and how do these initiatives fit within the new Global Health Initiative? I am concerned that PEPFAR—it is my understanding that we have \$48 billion. That is what our commitment was for 5 years, and now it seems like it is \$51 billion over 6 years. So I want to make sure, because the need is still very great, that we don't back off of our commitment to PEPFAR as well as the Global Fund, which President Clinton actually signed the Global Aids and Tuberculosis Relief Act in 2000 which set the framework for the Global Fund.

Secretary CLINTON. We are committed to PEPFAR, and what Dr. Goosby is doing, which I fully support, is trying to figure out how we can help countries whom we are supporting with treatment funds begin to build sustainable health systems. Because one of the things that we are aware of is that oftentimes countries don't follow through on their own budget commitments to health systems because we and other donors are in there providing the money. So we want to do everything possible to continue to treat and increase the number of people on treatment, but we want to build something more institutional. Otherwise, it is not sustainable. So that is what we are working on.

Mrs. LOWEY. Mr. Kirk.

Mr. KIRK. Thank you.

WORLD BANK

Since we were talking about the World Bank—and I think I am the only Member of Congress who actually has worked for the World Bank—let me be blisteringly specific and legal. No World Bank projects have been recently approved for Iran, but several World Bank projects have been approved, and money has not been provided. According to the World Bank's own Web site, as of 10 minutes ago, two major projects—the northern cities water project, and the Alborz land management project—have \$258 million in undisbursed, nonspent World Bank—and I will be legal—International Bank for Reconstruction Development, IBRD, funds that are pending.

Now, as you know the World Bank as well as I do, the IBRD does not support projects. Checks from the IBRD under its charter at the Bretton Woods conference is paid directly to the Finance Ministry of the Islamic Republic of Iran, a government which you have said has stolen an election and is subject to a creeping military coup.

So the question that I would have is, will the administration seek to block the disbursement of \$258 million in World Bank funds from 1818 H Street, Washington, D.C., to support the northern cities water project and the Alborz land management project, which would be paid directly to the Finance Ministry of the Islamic Republic of Iran?

Secretary CLINTON. Well, Congressman, we will certainly take this up with the World Bank. As you point out, the funds have not been disbursed. I don't, sitting here today, know the reasons why they have not been disbursed, but we will look into it immediately.

Mr. KIRK. Let me briefly interrupt you. These funds have been disbursed on a regular basis. So we have seen hundreds of millions of dollars transferred from the World Bank to the Islamic Republic of Iran's Finance Ministry. You have another \$258 million to go. So now that over 400 House Members and Senate Members have voted to cut off gasoline for Iran, certainly we could stop the disbursement of assistance.

You and I were not born yesterday. We would know that the money paid to the Islamic Republic of Iran's Finance Ministry is extremely fungible. I would suggest the analogy is we would certainly have cut off money going from an international institution to the Nazi Treasury, even if the Nazis claimed that it was going to support some project.

Secretary CLINTON. Well, Congressman, we will raise this with the World Bank, and we will get back to you.

Mr. KIRK. Thank you.

Mrs. LOWEY. Mr. Rothman.

Mr. ROTHMAN. In 1 minute, Madam Secretary, will you tell the American people why, if they would like a safer world and don't want to invest rightfully so, or are reluctant to invest American men and women's blood in defending what needs to be defended overseas to protect our beloved United States of America, it is important to have diplomats and the resources for those diplomats?

Secretary CLINTON. Well, your question reminds me of that famous saying by Winston Churchill: Jaw, jaw is always better than war, war. Talk and talk and talk and talk, and sometimes it tries the patience, and it makes people crazy with frustration. But talking and diplomatic activity and engagement is far preferable to having to engage in war.

Mr. ROTHMAN. At 1 percent of the budget.

Secretary CLINTON. Yes, that is right.

Mr. ROTHMAN. Thank you, Madam Secretary.

Mrs. LOWEY. Madam Secretary, thank you so much for sharing your wisdom with us. Thank you for your eloquence. Thank you for representing us throughout the world. We personally appreciate it, and we look forward to working with you. Thank you very much.

The meeting is adjourned.

**Questions for the Record Submitted to
Secretary of State Hillary Rodham Clinton by
Representative Nita Lowey (#1)
Subcommittee on State, Foreign Operations, and Related Programs
House Committee on Appropriations
February 25, 2010**

Question:

1(a): The Iranians recently indicated a willingness to swap weapons-grade uranium for medical uranium. The Chinese signaled their interest in reengaging and not opting for immediate sanctions. The Administration has met repeatedly at the highest levels with the Chinese, yet they don't see the urgency of moving forward with sanctions. Why are we making such limited headway in gaining this important partner's cooperation?

Answer:

China agrees with the United States on the risk that Iran poses to the international non-proliferation regime.

China has supported five United Nations Security Council resolutions on Iran in the past, including three that imposed Chapter VII sanctions.

With respect to a new resolution on Iran, Chinese President Hu stated for the first time, after meeting with President Obama at the Nuclear Security Summit earlier this month, that China now supports sanctions on Iran. China also continues to support the dual track-strategy and consensus in the context of the P5+1.

China is meeting with the other members of the P5+1 in New York to discuss a new United Nations Security Council resolution.

Question:

1(b): The makeup of the UN Security Council this year is problematic. What efforts need to be taken to ensure that members like Turkey, Lebanon and Bosnia vote the right way on any Resolution on Iran?

Answer:

We are working closely with the P5+1 on a new Security Council resolution to ensure a strong message of international unity is sent to Iran. Such negotiations are complex and challenging, but we are making significant progress toward a tough resolution. We've made substantial progress with our partners on this front, not only with our EU-3 partners but also with Russia and China.

We also have begun very direct and candid conversations with the ten elected members of the Security Council on the importance of a new UNSCR that holds Iran accountable to international concerns over its nuclear program and sharpens the choice Iran faces to address those concerns or face further isolation.

Question:

1(c): In the past, efforts in the United Nations and the IAEA have done little to prevent Iran from growing ever closer to acquiring the capacity to manufacture nuclear weapons. What multilateral mechanism and tools are you considering to ensure Iranian compliance and prevent further nuclear enrichment?

Answer:

We believe that our multilateral efforts over the past several years have had an impact on Iran, which we seek to amplify through additional pressure. Past IAEA and United Nations Security Council resolutions have been effective in restricting Iran's access to materials, equipment, and technology that would make a material contribution to its nuclear program. These sanctions have also underscored the danger of business dealings with a country that stands in serial violation of its international obligations. As a result, dozens of businesses over several years have withdrawn from business in Iran, increasing Iran's isolation from international financial centers and trade.

Furthermore, we have utilized non-traditional multilateral fora to increase the pressure on Iran. For example, the Financial Action Task Force (FATF) recently reiterated concern regarding Iran's lack of financial controls related to money laundering and terrorism financing, and called on member states to give special attention to financial and business transactions with Iran. The European Union has adopted several Common Positions imposing sanctions on Iran and Iranian entities.

More needs to be done but we believe that there is a strong foundation of pressure upon which we can build and thereby change Iran's strategic calculus.

Question:

1(d): Can you speak to the internal dynamics in Iran? How discontent is the general population towards the regime? How are new sanctions going to increase fissures between the population and the regime?

Answer:

The internal political situation in Iran remains unsettled. The Iranian government continues to suffer from a loss of legitimacy following the disputed presidential election in June 2009. While the opposition movement has not been able to stage mass anti-government protests since December, a substantial divide continues to exist between the government and the governed. The Iranian government continues to restrict the free flow of information, and intimidates, arrests, and convicts those Iranians whose views are known to be at odds with the ruling establishment.

As we consider possible sanctions, we are aiming for measures that target the power centers most likely to have an impact on Iran's strategic calculus, and which have minimum impact on the Iranian people. Because deliberations are ongoing regarding potential elements of new United

Nations Security Council Resolution, it is difficult to predict their possible effect on the existing fissures between the people and the government.

**Questions for the Record Submitted to
Secretary of State Hillary Rodham Clinton by
Representative Nita Lowey (#2)
Subcommittee on State, Foreign Operations, and Related Programs
House Committee on Appropriations
February 25, 2010**

Question:

President Obama has said he shares the goals of the Bush Administration to contain Iran's strategic capabilities and regional influence and continues to characterize Iran as a "profound threat to United States national security interests". I understand that the Romanian Supreme Defense Council agreed on February 4th to host a Standard Missile 3 (SM-3) interceptor as part of the President's "Phased Adaptive Approach" to protect our forward deployed troops and NATO allies from a ballistic missile threat from Iran.

2(a): Have any other countries agreed to host the SM-3 missile site? If so who?

Answer:

Poland agreed in principle in October 2009 to host the northern land-based SM-3 site in the 2018 timeframe and agreed in February 2010 to amend the existing Ballistic Missile Defense Agreement (BMDA) to host the SM-3 site. U.S. and Polish experts completed an amendment to the 2008 BMDA, and this is currently under-going conforming prior to a future signing. The U.S. European Phased Adaptive Approach (EPAA) also calls for transportable radar to be based in southern Europe. No decisions have been made as to where that radar will be located.

Question:

2 (b-c): What has been the reaction of the Russian's on this agreement? Is it affecting their support of strong and binding Security Council resolution?

Answer:

The U.S. has continuously briefed senior Russian officials on the Phased Adaptive Approach (PAA) and will continue to do so. That said, while initially welcoming President Obama's September 17, 2009, announcement of the PAA, Russia has said they were "surprised" by the U.S. offer to Romania to host the SM-3 BMD system. Recently at an April 6 press conference Foreign Minister Lavrov commented that the Romania deployment was a regional missile defense system that posed no threat to Russia's strategic nuclear forces. The United States is committed to working closely with Russia on BMD cooperation as well as providing transparency and confidence-building measures to build predictability and a strategic partnership against common challenges and threats.

Russia agrees with the United States on the risk that Iran poses to the international non-proliferation regime, and continues to work closely with the rest of the P5+1 in New York to devise a new UN Security Council resolution on Iran.

Question:

2(d): What has been Iran's reaction to the agreement? What has been the reaction of the Gulf Cooperation Council?

Answer:

Iran's missile program continues to be of serious concern, and Iranian missile tests continue. Iran's missile program is not only a threat to U.S. interests in the Gulf region, but to the region as a whole and beyond. We continue to consult with allies, including on the Gulf Cooperation Council, regarding regional security.

**Questions for the Record Submitted to
Secretary of State Hillary Rodham Clinton by
Representative Nita Lowey (#3)
Subcommittee on State, Foreign Operations, and Related Programs
House Committee on Appropriations
February 25, 2010**

Question:

Yemen has suffered 61 al-Qaeda attacks since 1992, yet the regime has been inconsistent in their response, often reluctantly taking swift and bold action against al-Qaeda.

- What is the Yemeni government doing to combat these extremist groups?
- Do you believe that Yemen is determined to fight al-Qaeda? How is this different from the past?
- Can we expect more cooperation?
- What is the Yemeni government doing to counter religious and political extremism and increase trust and credibility among the Yemeni population?

Answer:

Every indication is that the government of Yemen is taking active steps to combat terrorism. Over the last year, successful counterterrorism operations conducted by Government of Yemen security forces have led to the arrests of several al-Qaeda operatives. Yemeni security forces have also killed or captured al-Qaeda suspects and disrupted foreign fighter facilitation networks for Iraq. The United States remains encouraged by the Government of Yemen's demonstrated willingness to take action against al-

Qaeda and other extremist groups, and we fully expect to intensify cooperation on counterterrorism to address the growing threat of al-Qaeda in the Arabian Peninsula.

To date non-military Yemeni efforts to counter violent extremism and increase trust and credibility among the Yemeni population are modest. The U.S. continues to engage the Government of Yemen on development and reform efforts to address grievances by its population and improve the base conditions that currently make Yemen a fertile breeding ground for Al-Qaeda. We also continue to work with our international partners and Yemen's Gulf neighbors through forums such as the "Friends of Yemen" process to help the Yemenis identify and address much needed areas for government reform and economic development.

**Questions for the Record Submitted to
Secretary of State Hillary Rodham Clinton by
Representative Nita Lowey (#1)
Subcommittee on State, Foreign Operations, and Related Programs
House Committee on Appropriations
February 25, 2010**

Question:

1(a): The Iranians recently indicated a willingness to swap weapons-grade uranium for medical uranium. The Chinese signaled their interest in reengaging and not opting for immediate sanctions. The Administration has met repeatedly at the highest levels with the Chinese, yet they don't see the urgency of moving forward with sanctions. Why are we making such limited headway in gaining this important partner's cooperation?

Answer:

China agrees with the United States on the risk that Iran poses to the international non-proliferation regime.

China has supported five United Nations Security Council resolutions on Iran in the past, including three that imposed Chapter VII sanctions.

With respect to a new resolution on Iran, Chinese President Hu stated for the first time, after meeting with President Obama at the Nuclear Security Summit earlier this month, that China now supports sanctions on Iran. China also continues to support the dual track-strategy and consensus in the context of the P5+1.

China is meeting with the other members of the P5+1 in New York to discuss a new United Nations Security Council resolution.

Question:

1(b): The makeup of the UN Security Council this year is problematic. What efforts need to be taken to ensure that members like Turkey, Lebanon and Bosnia vote the right way on any Resolution on Iran?

Answer:

We are working closely with the P5+1 on a new Security Council resolution to ensure a strong message of international unity is sent to Iran. Such negotiations are complex and challenging, but we are making significant progress toward a tough resolution. We've made substantial progress with our partners on this front, not only with our EU-3 partners but also with Russia and China.

We also have begun very direct and candid conversations with the ten elected members of the Security Council on the importance of a new UNSCR that holds Iran accountable to international concerns over its nuclear program and sharpens the choice Iran faces to address those concerns or face further isolation.

Question:

1(c): In the past, efforts in the United Nations and the IAEA have done little to prevent Iran from growing ever closer to acquiring the capacity to manufacture nuclear weapons. What multilateral mechanism and tools are you considering to ensure Iranian compliance and prevent further nuclear enrichment?

Answer:

We believe that our multilateral efforts over the past several years have had an impact on Iran, which we seek to amplify through additional pressure. Past IAEA and United Nations Security Council resolutions have been effective in restricting Iran's access to materials, equipment, and technology that would make a material contribution to its nuclear program. These sanctions have also underscored the danger of business dealings with a country that stands in serial violation of its international obligations. As a result, dozens of businesses over several years have withdrawn from business in Iran, increasing Iran's isolation from international financial centers and trade.

Furthermore, we have utilized non-traditional multilateral fora to increase the pressure on Iran. For example, the Financial Action Task Force (FATF) recently reiterated concern regarding Iran's lack of financial controls related to money laundering and terrorism financing, and called on member states to give special attention to financial and business transactions with Iran. The European Union has adopted several Common Positions imposing sanctions on Iran and Iranian entities.

More needs to be done but we believe that there is a strong foundation of pressure upon which we can build and thereby change Iran's strategic calculus.

Question:

1(d): Can you speak to the internal dynamics in Iran? How discontent is the general population towards the regime? How are new sanctions going to increase fissures between the population and the regime?

Answer:

The internal political situation in Iran remains unsettled. The Iranian government continues to suffer from a loss of legitimacy following the disputed presidential election in June 2009. While the opposition movement has not been able to stage mass anti-government protests since December, a substantial divide continues to exist between the government and the governed. The Iranian government continues to restrict the free flow of information, and intimidates, arrests, and convicts those Iranians whose views are known to be at odds with the ruling establishment.

As we consider possible sanctions, we are aiming for measures that target the power centers most likely to have an impact on Iran's strategic calculus, and which have minimum impact on the Iranian people. Because deliberations are ongoing regarding potential elements of new United

Nations Security Council Resolution, it is difficult to predict their possible effect on the existing fissures between the people and the government.

**Questions for the Record Submitted to
Secretary of State Hillary Rodham Clinton by
Representative Nita Lowey (#2)
Subcommittee on State, Foreign Operations, and Related Programs
House Committee on Appropriations
February 25, 2010**

Question:

President Obama has said he shares the goals of the Bush Administration to contain Iran's strategic capabilities and regional influence and continues to characterize Iran as a "profound threat to United States national security interests". I understand that the Romanian Supreme Defense Council agreed on February 4th to host a Standard Missile 3 (SM-3) interceptor as part of the President's "Phased Adaptive Approach" to protect our forward deployed troops and NATO allies from a ballistic missile threat from Iran.

2(a): Have any other countries agreed to host the SM-3 missile site? If so who?

Answer:

Poland agreed in principle in October 2009 to host the northern land-based SM-3 site in the 2018 timeframe and agreed in February 2010 to amend the existing Ballistic Missile Defense Agreement (BMDA) to host the SM-3 site. U.S. and Polish experts completed an amendment to the 2008 BMDA, and this is currently under-going conforming prior to a future signing. The U.S. European Phased Adaptive Approach (EPAA) also calls for transportable radar to be based in southern Europe. No decisions have been made as to where that radar will be located.

Question:

2 (b-c): What has been the reaction of the Russian's on this agreement? Is it affecting their support of strong and binding Security Council resolution?

Answer:

The U.S. has continuously briefed senior Russian officials on the Phased Adaptive Approach (PAA) and will continue to do so. That said, while initially welcoming President Obama's September 17, 2009, announcement of the PAA, Russia has said they were "surprised" by the U.S. offer to Romania to host the SM-3 BMD system. Recently at an April 6 press conference Foreign Minister Lavrov commented that the Romania deployment was a regional missile defense system that posed no threat to Russia's strategic nuclear forces. The United States is committed to working closely with Russia on BMD cooperation as well as providing transparency and confidence-building measures to build predictability and a strategic partnership against common challenges and threats.

Russia agrees with the United States on the risk that Iran poses to the international non-proliferation regime, and continues to work closely with the rest of the P5+1 in New York to devise a new UN Security Council resolution on Iran.

Question:

2(d): What has been Iran's reaction to the agreement? What has been the reaction of the Gulf Cooperation Council?

Answer:

Iran's missile program continues to be of serious concern, and Iranian missile tests continue. Iran's missile program is not only a threat to U.S. interests in the Gulf region, but to the region as a whole and beyond. We continue to consult with allies, including on the Gulf Cooperation Council, regarding regional security.

**Questions for the Record Submitted to
Secretary of State Hillary Rodham Clinton by
Representative Nita Lowey (#3)
Subcommittee on State, Foreign Operations, and Related Programs
House Committee on Appropriations
February 25, 2010**

Question:

Yemen has suffered 61 al-Qaeda attacks since 1992, yet the regime has been inconsistent in their response, often reluctantly taking swift and bold action against al-Qaeda.

- What is the Yemeni government doing to combat these extremist groups?
- Do you believe that Yemen is determined to fight al-Qaeda? How is this different from the past?
- Can we expect more cooperation?
- What is the Yemeni government doing to counter religious and political extremism and increase trust and credibility among the Yemeni population?

Answer:

Every indication is that the government of Yemen is taking active steps to combat terrorism. Over the last year, successful counterterrorism operations conducted by Government of Yemen security forces have led to the arrests of several al-Qaeda operatives. Yemeni security forces have also killed or captured al-Qaeda suspects and disrupted foreign fighter facilitation networks for Iraq. The United States remains encouraged by the Government of Yemen's demonstrated willingness to take action against al-

Qaeda and other extremist groups, and we fully expect to intensify cooperation on counterterrorism to address the growing threat of al-Qaeda in the Arabian Peninsula.

To date non-military Yemeni efforts to counter violent extremism and increase trust and credibility among the Yemeni population are modest. The U.S. continues to engage the Government of Yemen on development and reform efforts to address grievances by its population and improve the base conditions that currently make Yemen a fertile breeding ground for Al-Qaeda. We also continue to work with our international partners and Yemen's Gulf neighbors through forums such as the "Friends of Yemen" process to help the Yemenis identify and address much needed areas for government reform and economic development.

**Questions for the Record Submitted to
Secretary of State Hillary Rodham Clinton by
Representative Nita Lowey (#4)
Subcommittee on State, Foreign Operations, and Related Programs
House Committee on Appropriations
February 25, 2010**

Question:

The budget request includes a total of \$812 million to enable the Department of State to assume full responsibility and management of the Iraqi police development and training program. The funding is intended to continue the transition from the Department of Defense to the Department of State initiated in the supplemental request.

- a. How much did the Department of Defense pay annually for personnel and equipment to fulfill the duties of the training program? How will that compare to State's expenses?
 - Since 2004, DoD has provided Iraq Relief and Reconstruction Funds (IRRF) and Iraq Security Forces Funds (ISFF) to State/INL to finance the participation of civilian police advisors in police training in Iraq. Those funds have been in yearly amounts as high as \$933M in 2006 and have averaged \$400M in recent years. However, those civilian advisors are only a small part of the overall DoD-led police mission which involves an estimated 5000 personnel. DoD has directly provided extensive support in the form of additional police advisors from the military ranks, security and transportation as well as substantial life and mission support.

Though we have asked for an estimate of overall annual costs pertaining to police training, DoD has not yet been able to provide such an estimate.

- The State/INL program will involve approximately 350 subject matter expert advisors who will be based out of three geographic hubs (Baghdad, Basrah, and Erbil). Even with substantial security personnel that are required, this is a considerably smaller footprint than the DoD program and should result in significant taxpayer savings. We are also improving our oversight procedures to ensure that the expanded State/INL program is maximally effective.

- b. Will this be a continuing requirement beyond fiscal year 2011? If so, what are the projected costs of this program in 2012 and beyond?

The foreign assistance budgets are in the process of being developed for FY 2012 and beyond. Though we have not yet developed an FY 2012 estimate, we anticipate a robust police development program for several years to develop the capabilities of the Iraqi government to effectively manage police operations and ensure police primacy in internal security. The FY11 request **is for three months of operational expenses.**

- c. **How will you ensure efficient and effective oversight of funding?**

- INL has already begun strengthening existing funding oversight and control mechanisms, including increasing our number of contracting personnel, commissioning an independent audit of controls, and

expanding use of Quality Assurance Surveillance Plan. These and other improved oversight efforts are described in detail below.

d. Will the State Department program supply the same type of training, or will it be different? And if so, what will be different?

- In close consultation with the Government of Iraq (GOI), State/INL is planning for a smaller, senior-level focused advising program that will be built on the foundation of the DoD-led mission that has focused on force generation and basic training of police recruits. At GOI request, State/INL intends to fill a higher-level consultant role to senior GOI officials focusing on areas such as management development, strategic and operational planning, and advanced technical skills.
- Below is a chart delineating some of the main differences between the current DoD-led mission and the future State police development program.

	Department of Defense Program	Department of State Program
1.	Military-led with civilian advisors	Entirely civilian-led; no military support
2.	Large in size and scope; an estimated 5,000 military personnel and civilian advisors, not including combat troops	Much smaller footprint; 350 advisors and no more than 1500 support personnel including security
3.	Based out of 50+ bases and training centers throughout Iraq	Based out of three program hubs in Baghdad, Basrah and Erbil
4.	Force generation and basic training	Training in advanced and technical skills

5.	Operational equipment (vehicles, etc.) provided to Iraqis	No operational equipment provided
6.	Develop ability of Iraqi Police Service (IPS) to perform basic policing functions	Develop leadership and management skills for senior officials to effectively manage the IPS and its operations
7.	Focus on counterinsurgency operations	Focus on community policing
8.	Advising and mentoring in all levels of IPS from the individual police station level up through the MOI	Advising/consulting at senior levels of IPS such as at Provincial Police HQ and training centers, police colleges, and MOI. No police station visits.

**Questions for the Record Submitted to
Secretary of State Hillary Rodham Clinton by
Representative Nita Lowey (#5)
Subcommittee on State, Foreign Operations, and Related Programs
House Committee on Appropriations
February 25, 2010**

Question:

Madam Secretary, I strongly support your work to rebalance the roles between the Department of Defense and the Department of State. But, I am concerned by a recent SIGIR report on weaknesses in the Department's oversight of the DynCorp contract to train Iraqi Police, which could make vulnerable the \$2.5 billion contract to waste and fraud. This is not a new issue: in 2005 INL was told they had inadequate resources and controls on contracts in Iraq and Afghanistan and they needed to increase staffing and in 2007 INL was again cited for poor oversight of Iraq contracts. Each time INL has stated they will put more staff in Iraq, but increased staff and oversight have yet to materialize.

- a. While you have only been Secretary for a year, can you assure me that the State Department will immediately implement the recommendations of the SIGIR to ensure that controls are being effectively and efficiently managed?

Answer:

- Yes, State/INL is in the process of making changes that are consistent with SIGIR's recommendations. INL reviewed contract management requirements and staffing to determine the necessary staffing levels and hiring mechanisms. Fifteen In-country Contracting Officer Representatives (ICORs) and property management specialists are needed in Iraq to oversee the current DynCorp task order - a threefold increase above post's previous

staffing for this contract management function. All 15 of these ICORs will be in place by October 2010.

- INL has hired an independent expert to review INL contract management business processes and management controls, identify required changes and establish detailed ICOR Standard Operating Procedures by June 30, 2010.
- INL is compressing the timeline to complete the historical invoice reconciliation by the end of 2012. We are hiring 8 additional staff focused on Iraq invoices to meet this goal.
- INL is expanding the use of Quality Assurance Surveillance Plan (QASP), already in the current task orders for Iraq and Afghanistan, which provide a formal process for INL to evaluate contract deliverables and conformance to the Statement of Work (e.g., inspections, representative samples, etc.).
- INL will establish a Microsoft SharePoint solution to provide full accessibility of COR files in Washington to ICORs at post by end of May 2010. This new level of information sharing will facilitate contract management and standard practices, especially during ICOR staffing turnovers.

- b. INL has been made aware of weaknesses in oversight of contracts for Iraq and Afghanistan as early as 2005 and again in 2007. Yet according to the SIGIR report \$2.5 billion remains vulnerable to waste and fraud. What actions were taken in response to the reports of poor oversight from 2005 and 2007?
- Beginning in late 2005, INL instituted three internal reviews that resulted in tougher contract oversight, internal controls, and reporting requirements for Iraq. Early in 2007, INL established the integrated program support and contract management model to strengthen contract management and has been systematizing and automating voluminous contract data.
 - State/INL established a support office in Washington because of security, physical and electronic space limitations in Iraq at the time.
 - State/INL established INL Contracting Officer Representative files in compliance with the Federal Acquisition Regulations.
 - State/INL requested assistance from external audit organizations to examine questionable practices (i.e., Defense Contract Audit Agency and the Office of the Inspector General).
 - State/INL required the contractor to implement an accredited inventory control system appropriate for contractor purchased government-owned property. INL also instituted annual inventories of weapons and other

government-owned property. For Iraq, annual inventories were completed in January 2009 and are due to be completed for this year. For Afghanistan, the annual inventory was completed in September 2009.

- State/INL is requiring more frequent and detailed performance and cost reporting and is requiring contractors to submit detailed work plans prior to the commencement of work.
 - State/INL established a contract modification in 2006 for making provisional payments to our contractors in order to comply with the Prompt Payment Act. INL also conducts comprehensive invoice reviews to minimize the government's risk for fraud, waste, and mismanagement for contracts in Iraq and Afghanistan. So far for Iraq and Afghanistan, these contract management tools have resulted in an INL overall rejection rate in contractor invoices of 19%, recovery of \$26.5 million in savings, and \$37.3 million from the reconciliation refunds.
 - Together these efforts, along with our current efforts, demonstrate State/INL's efforts to minimize risk to the USG for fraud, waste, and mismanagement. Therefore, the DOS does not believe that \$2.5 billion is at risk as has been asserted.
- c. The Department of State is scheduled to take responsibility for the police training program for DoD in 2011. Given the lack of oversight displayed, does the Department have the capacity to manage the Iraqi Police training program?

- INL believes that the increased staffing levels and the full implementation of cumulative improvements listed above will continue to transform the bureau's oversight management and close the gap on potential vulnerabilities. INL continuously evaluates our capabilities to identify and apply best practices in our operations.
- We have learned from the continually evolving program demands in Iraq and Afghanistan that we must respond with greater oversight by adding specialized personnel with technical skills necessary to effectively oversee and manage INL police training programs.
- INL does have the personnel and organizational capacity to properly oversee and implement police training programs. INL has operated numerous successful police missions throughout the world including those in Bosnia, Kosovo, Liberia, Georgia, and East Timor. The missions in Iraq and Afghanistan, conducted in hostile environments, have been particularly challenging as police training needs must be flexible and responsive to fluctuating demands driven by military operations.
- In Iraq, INL is designing the future Iraq police development program to include a much higher proportion of USG direct hire personnel – approximately one USG employee for every six contractors to ensure proper management and oversight.

- d. What steps are being taken to address the larger question of contract oversight in front line states?
- INL is implementing an Internal Audit Function bureau-wide to complement the current management control program. INL is hiring internal audit staff to include one dedicated lead each for Iraq and Afghanistan. INL's approach to internal audits will be risk based on factors germane to Iraq contract oversight (e.g., high cost areas, areas of systemic invoice rejections, etc.) and will commence in June 2010.
 - INL is broadening its acquisitions strategy for major requirements.
 - INL is converting ICORs from Personal Service Contracts to 3161 appointments by October 2010 and will increase invoice reconciliation staffing to compress invoice reconciliation down to two years.
 - INL will leverage information sharing platforms such as Microsoft SharePoint to provide real time contractor information to both headquarters and field oversight personnel.

**Questions for the Record Submitted to
Secretary of State Hillary Rodham Clinton by
Representative Nita Lowey (#6)
Subcommittee on State, Foreign Operations, and Related Programs
House Committee on Appropriations
February 25, 2010**

Question:

We continue to be deeply concerned about reports, audits and investigations from the Special Inspector General for Iraqi Reconstruction (SIGIR), GAO, and other sources that detail abuses of US foreign assistance in Iraq. We take these matters seriously and will continue to follow-up.

A November, 2009 New York Times article, "U.S. Fears Iraqis will Not Keep Up Rebuilt Projects", raised serious concerns about what might happen as the US continues to transition out of Iraq:

...the U.S. Government has spent \$53 billion for relief and reconstruction in Iraq since the 2003 invasion, building tens of thousands of hospitals, water treatment plants, electricity substations, schools and bridges...but there are growing concerns among American officials that Iraq will not be able to adequately maintain the facilities once the Americans have left, potentially wasting hundreds of millions of dollars and jeopardizing Iraq's ability to provide basic services to its people.

How are the Department and USAID addressing the issue of Iraqi capacity to sustain, maintain, and maximize the use of USG funded projects after we leave?

Answer:

The State Department and USAID understand and share concerns regarding the Government of Iraq's (GOI) capacity to sustain, maintain, and maximize the use of U.S.-funded projects. These shared concerns are major

drivers behind the State Department's and USAID's emphasis over the last several years on providing civilian technical assistance to Iraq that focuses on strengthening the capacity of Iraqi central and local government institutions. At the central government level, technical assistance has drawn on the expertise of various Embassy offices, attachés, as well as USAID. At the provincial level, Provincial Reconstruction Teams (PRTs) take the lead in coordinating these diverse capacity building efforts.

In addition to building capacity to sustain U.S. funded projects, Embassy assistance has also played a critical role in increasing the ability of the ministries to deliver essential services. Senior advisors from various USG agencies have been providing day-to-day advice and support to ministers and senior staff for several years. USAID's Local Governance, National Capacity, and Economic Governance programs complement this effort by building the GOI's capacity to execute its budget at local and national levels in a transparent and effective manner, train future generations of Iraqi civil servants, and manage the country's banking system and economic policy. By partnering with the GOI and working with other donors, provincial and local governments, civil society organizations, community groups and Iraqi citizens, USAID supports an array of

development activities that will complement and reinforce the Iraqis' own efforts and utilize their own resources more effectively.

The majority of large ticket items such as water treatment plants, electricity substations, schools and other major infrastructure projects have been turned over to the GOI, which has been adequately maintaining and maximizing the use of these projects, in some cases for several years.

In early 2009, at the request of Congress, the State Department led the development of interagency "programmatic matching guidelines" to secure matching funds, in cash or in-kind, from the Iraqi government for U.S. foreign assistance. These guidelines apply to all new foreign assistance, and have been put in place not only to reduce the burden on the U.S. taxpayer in the short-term, but also to secure GOI buy-in to these programs to ensure that programs will be sustainable beyond our large-scale involvement in Iraq. The Iraqi government has delivered on its part of the matching guidelines for U.S. foreign assistance in common areas of effort, including support for national and provincial capacity development, economic diversification, and rule of law institutions.

**Questions for the Record Submitted to
Secretary of State Hillary Rodham Clinton by
Representative Nita Lowey (#7)
Subcommittee on State, Foreign Operations, and Related Programs
House Committee on Appropriations
February 25, 2010**

Question:

We continue to be concerned about the many Iraqis and their families who are refugees or internally displaced persons (IDPs) as a result of the war and subsequent violence that has occurred in Iraq since 2003.

Could you give us an update on the numbers, the steps that are being taken to assist and resettle the refugees and IDPs, and the efforts that Iraq, other countries in the region and the broader international community are making to help resolve this serious humanitarian crisis?

Answer:

The Administration remains committed to working with the international community to provide assistance, protection, and durable solutions for displaced Iraqis. Our long term strategy for Iraq's displaced is to help the Iraqi government build a stable Iraq that has the capacity to reintegrate returning Iraqis, while sustaining humanitarian assistance for displaced Iraqis who have yet to return to their homes, and maintaining refugee resettlement as an option for the most vulnerable who are unable to return home.

There are almost 229,000 Iraqi refugees currently registered with the United Nations High Commissioner for Refugees (UNHCR) in neighboring countries and an undetermined number of unregistered refugees. There is no definitive number of displaced Iraqis because they are dispersed throughout urban areas and are sometimes reluctant to register as refugees. The governments of Jordan and Syria continue to allow Iraqi refugees access to public education and health care. The Government of Iraq reports that 1.55 million Iraqis displaced by sectarian violence following the Samarra Mosque bombing of February 2006 remain internally displaced in Iraq. Since the beginning of 2008, some 464,000 Iraqis have returned to their neighborhoods in Iraq. The majority of the Iraqis returning were internally displaced persons (IDPs).

In FY 2009, the U.S. Government contributed \$387 million in humanitarian assistance for Iraqi refugees in the region, Iraqi conflict victims, and internally displaced persons. Our funding supports a range of services including education, health care, food assistance, and cash assistance for the most vulnerable. Inside Iraq, our funds are also used to support communities of return through the rehabilitation of homes and rehabilitation and creation of water, sanitation, and hygiene facilities. In FY2010, the Administration is in the process of contributing \$200 million,

including \$150 million to UNHCR's appeal for displaced Iraqis, to international organizations and non-governmental organizations for assistance to Iraqi refugees, IDPs, and conflict victims. We plan to make further contributions later this fiscal year.

We are encouraged by several steps being taken by the Iraqi government to provide more assistance for its own displaced. Over the last year, the GOI increased the budget for the Ministry of Displacement and Migration by 250 percent and is working to add more emergency funding. This should permit an increase in the grants offered to returning refugees and displaced persons.

The Iraqi government has also begun to disperse the \$32 million it pledged for compensation to displaced persons in Diyala province. Through this initiative, the Iraqi government plans to invest in agricultural and other infrastructure programs and basic services in areas with large numbers of returnees. The government is also starting an employment project in which it has pledged to provide six-month contract jobs for returnees and local Diyalans. The international humanitarian community is partnering with the GOI to provide targeted assistance for returnees in this province and is looking into how to expand this type of initiative to other provinces. Although the GOI has made progress on assisting displaced Iraqis, we

continue to urge them to do much more, including assisting its citizens who are displaced in neighboring countries.

The Administration continues to urge other donors to contribute generously in support of displaced Iraqis. To date in 2010, UNHCR has received \$20 million from other donors toward its \$508 million appeal for displaced Iraqis. The Administration continues to meet with other potential donors to encourage increased support.

The USG also maintains resettlement to the U.S. as an option for the most vulnerable Iraqis who, like other vulnerable refugees, are in urgent need of protection and for whom other durable solutions are not feasible. In FY 2009 we resettled 18,838 Iraqi refugees, exceeding our target of at least 17,000, and expect similar numbers this year. Since 2007, the U.S. has resettled more than 43,000 Iraqi refugees.

**Questions for the Record Submitted to
Secretary of State Hillary Clinton by
Representative Nita Lowey (8b)
Subcommittee on Foreign Operations
House Committee on Appropriations
February 25, 2010**

Multilateral Institutions and Coordination

Question:

The budget request includes an interesting trend related to multilateral institutions and collaboration. While funding within the State and USAID budget for United Nations organizations and for health organizations was reduced or increased much below the capacity of the organizations to perform their functions, funding within the Treasury budget for multilateral banks and funds within those banks was significantly increased.

- b) How will the State Department collaborate with Treasury to provide direction to the Global Food Security Fund and the Climate Funds in order to ensure that these programs are complementary to our significant bilateral investments?

Answer:

The Global Agriculture and Food Security Program Fund

Coordination for the Administration's investment in the Global Agriculture and Food Security Program is happening through coordination among U.S. Agency for International Development (USAID), the Department of State, and the Department of the Treasury. There are multiple levels of coordination for this effort in Washington, DC and in recipient countries.

- **Governance:** Governance of the fund has three levels. The US government seat on the Steering Committee, which oversees the operations and activities of the GAFSP will be held by an official from the Department of Treasury. A representative from USAID will attend all Steering Committee meetings as an

observer. USAID is an active participant in the unofficial deliberations of the Steering Committee. The US government seat on the Technical Advisory Committee which screens country financing proposals and provides a funding recommendation to the Steering Committee will be either an employee or designee of USAID. The US government representative on the Technical Advisory Committee will require that proposals be aligned with our bilateral investments to receive an affirmative vote from the representative

- **Country-Level Coordination:** The most significant point of coordination will happen at the recipient country level where Donor Working Groups work with the recipient country to develop Country Investment Plans that form the basis for High-Level Donor events to make bilateral commitments against those plans. The process is designed to be open and transparent so that donor contributions are aligned. Only countries that have held High Level events will be invited by the Steering Committee to submit proposals to the Trust Fund. USAID is the lead agency in ensuring that this coordination takes place at the country level.

The Climate Funds

To mobilize the widest range of resources and expertise, the Administration is taking a whole-of-government approach to international climate policy and assistance. The core international climate assistance comes from the U.S. Agency for International Development (USAID), the Department of State, and the Department of the Treasury. These agencies provide additional assistance through programs in other development

sectors – such as food security, water, and health – that do not necessarily have a primary climate objective but nevertheless provide climate co-benefits. Several other agencies provide important technical expertise and financial resources to complement the core activities. Development finance and export credit agencies help mobilize private sector investment in clean energy technologies in the developing world, helping to address climate change while expanding markets for U.S. businesses. Agencies are taking new steps to strengthen internal coordination and focus on climate strategy. The U.S. also works closely with other major donors to ensure that our investments are complementary.

- The U.S. Agency for International Development (\$491 million): USAID is the lead contributor to bilateral assistance, with a focus on capacity building, civil society building, governance programming and creating the legal and regulatory environments needed to address climate change. USAID will leverage its significant technical expertise to provide leadership in development and implementation of low-carbon strategies, creating policy frameworks for market-based approaches to emission reduction and energy sector reform, promoting sustainable management of agriculture lands and forests, and mainstreaming adaptation into development activities in countries most at risk. USAID has long-standing relationships with host country governments that will enable it to work together to develop shared priorities and implementation plans. USAID's engagement and expertise in agriculture, biodiversity, health, and other critical climate sensitive sectors provide an opportunity to implement innovative cross-sectoral climate change programs. Finally, USAID bilateral programs can work in

key political and governance areas that multilateral agencies cannot. In addition to core assistance, the Budget includes an estimated \$303 million in funding that delivers climate co-benefits.

- The U.S. Department of State (\$155 million): State takes the lead on diplomatic efforts and deploys financial resources in support of key multilateral and bilateral priorities. State's comparative advantage is promoting effective international solutions, advanced technology strategies, and innovative market approaches through international processes and U.S.-led diplomatic partnerships and initiatives. In addition to core assistance, the Budget includes an estimated \$1 million in funding that delivers climate co-benefits.

- The U.S. Department of Treasury (\$744 million): The Treasury Department is the primary vehicle by which the U.S. government provides contributions through multilateral delivery channels, including the Climate Investment Funds and the Global Environment Facility. Multilateral assistance promotes institutional structures governed jointly by developed and developing countries, which are needed for a coordinated, global response to climate change. Multilateral institutions complement bilateral assistance by leveraging contributions from other donors, making capital investments in infrastructure, providing a range of tailored financial products, and working across a larger number of countries. In addition to core assistance, the budget includes an estimated \$82 million in

funding through the Global Agriculture and Food Security Program (GAFSP) that delivers climate co-benefits.

In addition, USAID provides technical expertise to USG representation on the governing bodies of the multilateral trust funds, such as for the Treasury-led Climate Technology Fund or the State-led Forest Carbon Partnership Fund.

**Questions for the Record Submitted to
Secretary of State Hillary Rodham Clinton by
Representative Nita Lowey (#8b)
Subcommittee on State, Foreign Operations, and Related Programs
House Committee on Appropriations
February 25, 2010**

Multilateral Institutions and Coordination

Question:

The budget request includes an interesting trend related to multilateral institutions and collaboration. While funding within the State and USAID budget for United Nations organizations and for health organizations was reduced or increased much below the capacity of the organizations to perform their functions, funding within the Treasury budget for multilateral banks and funds within those banks was significantly increased.

- b) How will the State Department collaborate with Treasury to provide direction to the Global Food Security Fund and the Climate Funds in order to ensure that these programs are complementary to our significant bilateral investments?

Answer:

The Global Agriculture and Food Security Program Fund

Coordination for the Administration's investment in the Global Agriculture and Food Security Program is happening through coordination among U.S. Agency for International Development (USAID), the Department of State, and the Department of the Treasury. There are

multiple levels of coordination for this effort in Washington, DC and in recipient countries.

- **Governance:** Governance of the fund has three levels. The US government seat on the Steering Committee, which oversees the operations and activities of the GAFSP will be held by an official from the Department of Treasury. A representative from USAID will attend all Steering Committee meetings as an observer. USAID is an active participant in the unofficial deliberations of the Steering Committee. The US government seat on the Technical Advisory Committee which screens country financing proposals and provides a funding recommendation to the Steering Committee will be either an employee or designee of USAID. The US government representative on the Technical Advisory Committee will require that proposals be aligned with our bilateral investments to receive an affirmative vote from the representative
- **Country-Level Coordination:** The most significant point of coordination will happen at the recipient country level where Donor Working Groups work with the recipient country to develop Country Investment Plans that form the basis for High-Level Donor events to

make bilateral commitments against those plans. The process is designed to be open and transparent so that donor contributions are aligned. Only countries that have held High Level events will be invited by the Steering Committee to submit proposals to the Trust Fund. USAID is the lead agency in ensuring that this coordination takes place at the country level.

The Climate Funds

To mobilize the widest range of resources and expertise, the Administration is taking a whole-of-government approach to international climate policy and assistance. The core international climate assistance comes from the U.S. Agency for International Development (USAID), the Department of State, and the Department of the Treasury. These agencies provide additional assistance through programs in other development sectors – such as food security, water, and health – that do not necessarily have a primary climate objective but nevertheless provide climate co-benefits. Several other agencies provide important technical expertise and financial resources to complement the core activities. Development finance and export credit agencies help mobilize private sector investment in clean energy technologies in the developing world, helping to address climate

change while expanding markets for U.S. businesses. Agencies are taking new steps to strengthen internal coordination and focus on climate strategy. The U.S. also works closely with other major donors to ensure that our investments are complementary.

- The U.S. Agency for International Development (\$491 million):
 USAID is the lead contributor to bilateral assistance, with a focus on capacity building, civil society building, governance programming and creating the legal and regulatory environments needed to address climate change. USAID will leverage its significant technical expertise to provide leadership in development and implementation of low-carbon strategies, creating policy frameworks for market-based approaches to emission reduction and energy sector reform, promoting sustainable management of agriculture lands and forests, and mainstreaming adaptation into development activities in countries most at risk. USAID has long-standing relationships with host country governments that will enable it to work together to develop shared priorities and implementation plans. USAID's engagement and expertise in agriculture, biodiversity, health, and other critical climate sensitive sectors provide an opportunity to implement innovative

cross-sectoral climate change programs. Finally, USAID bilateral programs can work in key political and governance areas that multilateral agencies cannot. In addition to core assistance, the Budget includes an estimated \$303 million in funding that delivers climate co-benefits.

- The U.S. Department of State (\$155 million): State takes the lead on diplomatic efforts and deploys financial resources in support of key multilateral and bilateral priorities. State's comparative advantage is promoting effective international solutions, advanced technology strategies, and innovative market approaches through international processes and U.S.-led diplomatic partnerships and initiatives. In addition to core assistance, the Budget includes an estimated \$1 million in funding that delivers climate co-benefits.
- The U.S. Department of Treasury (\$744 million): The Treasury Department is the primary vehicle by which the U.S. government provides contributions through multilateral delivery channels, including the Climate Investment Funds and the Global Environment Facility. Multilateral assistance promotes institutional structures

governed jointly by developed and developing countries, which are needed for a coordinated, global response to climate change.

Multilateral institutions complement bilateral assistance by leveraging contributions from other donors, making capital investments in infrastructure, providing a range of tailored financial products, and working across a larger number of countries. In addition to core assistance, the budget includes an estimated \$82 million in funding through the Global Agriculture and Food Security Program (GAFSP) that delivers climate co-benefits.

In addition, USAID provides technical expertise to USG representation on the governing bodies of the multilateral trust funds, such as for the Treasury-led Climate Technology Fund or the State-led Forest Carbon Partnership Fund.

**Questions for the Record Submitted to
Secretary of State Hillary Clinton by
Representative Nita Lowey (#9B)
Subcommittee on Foreign Operations
House Committee on Appropriations
February 25, 2010**

Question:

What is the State Department doing to insure that the rights of refugees, specifically the right to work and move freely, are respected both by host governments and in the provision of protection and assistance?

Answer:

The Department's Bureau of Population, Refugees, and Migration (PRM) is at the forefront of USG diplomatic and humanitarian assistance efforts to ensure that the rights of refugees are respected by host governments and in the provision of protection and assistance. PRM works with international organizations such as the Office of the United Nations High Commissioner for Refugees (UNHCR) to advocate for host countries to make and enforce laws and policies that implement their international obligations to uphold the rights of refugees, internally displaced persons, stateless persons, and conflict victims."

PRM works to promote international refugee protection and strengthen national protection frameworks by supporting training for host government officials and encouraging States to become party to the 1967

Protocol Relating to the Status of Refugees which incorporates most of the substantive provisions of the 1951 Convention Relating to the Status of Refugees. The rights to work and to freedom of movement are both articulated in the Refugee Convention/ Protocol, and the Department advocates for State Parties' adherence to these obligations. The Department assesses State Parties' adherence to and progress towards these obligations in its annual Country Reports on Human Rights Practices, as well as through field monitoring by PRM and Embassy officers. To complement diplomatic efforts, PRM supports programs to help enhance livelihoods for refugees through training, micro-enterprise, and skills-building.

**FY 2011 Budget Request
Questions for the Record
Submitted by Ranking Member Kay Granger
for Secretary of State Hillary Rodham Clinton**

Global Engagement Initiative

1. The budget request includes \$100 million of new funding for global engagement, which would support the initiatives the President laid out in Cairo last spring. This \$100 million is on top of existing investments. Deputy Secretary Lew has said that there are more than \$700 million worth of existing programs. Please describe the existing programs that support outreach to the Muslim world, and what this Administration plans to do that is new and different. What types of challenges do you foresee in forging these new partnerships with the Muslim world?
2. In President Obama's Cairo speech, he said that the US would partner with "any Muslim-majority country to support expanded literacy programs for girls and help young women pursue employment through microfinancing." Are there new opportunities for literacy and microfinance programs in places where there aren't existing US programs? If so, where?

Global Health Initiative

1. Many of the global health dollars are programmed through various departments and agencies such as the Centers for Disease Control and Prevention and the Department of Defense that are not overseen by this subcommittee. How does the Administration's Global Health Initiative respond to the various agencies that implement these programs and integrate the many bureaucratic layers that exist?
2. Please expand on how the Administration plans to address the following implementation aspects of the Global Health Initiative: ensuring that countries are committed to providing, training, and retaining health care workers; making drugs and commodities available when needed; and minimizing corruption at every step of the procurement process?

Guantanamo

1. There have been reports that the Intelligence Community assesses that twenty percent of detainees transferred from Guantanamo are confirmed or suspected of recidivist activity. Before detainees are returned to places where we know security threats exist – like Yemen, Somalia, and Afghanistan, what assurances do you get from governments that these detainees can be sufficiently monitored? What measures are taken to confirm those assurances?

Iran

1. After a year of engagement with the Iranians, what has the Administration has accomplished? What challenges lie ahead?
2. What is the Administration doing to support the opposition in Iran including their ability to communicate freely with one another?

Syria

1. What are the expectations of a new U.S. Ambassador to Syria? What will be the fate of the current economic sanctions the U.S. has placed on Syria?

Mexico

1. The GAO recently criticized the amount of time it takes the State Department to deliver equipment to Mexico. Please provide an update on the timeline for equipment delivery already funded, like Blackhawk helicopters and surveillance planes. Please provide additional detail on the \$310 million request in FY 2011. Does the Administration plan to shift away from large equipment purchases?

Frontline States

1. The Subcommittee provided significant funding for non-military aid to Afghanistan, Iraq, and Pakistan in FY 2010 and has a new request in the FY 2010 supplemental. What is the pipeline in all accounts of unspent funds from prior years?
2. What types of new approaches are you considering so that funds can be spent quickly, efficiently, and with the proper oversight? What are the specific immediate needs that must be addressed in an emergency appropriation that can't be met with funds currently available?
3. The FY 2011 request for the Pakistan Counterinsurgency Capability Fund (PCCF) is \$1.2 billion. What progress has been made under the State Department's management of the PCCF in FY 2010? What projects have been completed and what is planned for FY 2011?

Strategic Review

1. Please describe the status of the Quadrennial Diplomatic and Development Review and the Presidential Study Directive on development policy. How are the two

complementary? How will these reviews feed into State Department and USAID's budgeting process?

2. Are the QDDR and Presidential Study Directive addressing activities that need to be reduced, not just increased? If programmatic reductions are considered, will this be reported out from these strategic reviews, or will that follow during the budgeting process?

United Nations Oversight

1. Recent reports that the United Nations has dramatically cut back investigations of fraud and corruption are extremely concerning. Since the UN eliminated the Procurement Task Force at the beginning of 2009 and merged the function into the Office of Internal Oversight Services, not a single significant fraud or corruption case has been completed. What is your assessment of the UN's current ability to police itself? Does the Administration plan to make anti-fraud and anti-corruption efforts a priority at the UN? What specific measures or budget initiatives are you pursuing to strengthen these investigative capabilities?

[CLERK'S NOTE.—Responses to the questions were not provided by the Department.]

**FY 2011 Budget Request
Questions for the Record
Submitted by Ranking Member Jerry Lewis
for Secretary of State Hillary Rodham Clinton**

Afghanistan

1. Please respond to the following two findings from the December Inspector General's report on the counternarcotics strategy in Afghanistan.
 - 1) "The Department of State lacks a long-term strategy and a clear end state for its counternarcotics programs in Afghanistan, which hinders planning and prevents an accurate assessment of effectiveness."
 - 2) "The U.S. military and coalition forces perceive a strong link in Afghanistan between the narcotics industry and support for insurgents. Consequently, the U.S. military has assumed greater responsibility for overall counternarcotics efforts. This increased involvement will impact the scope and function of counternarcotics programs conducted under chief of mission authority at Embassy Kabul."
2. What was the reason for the shift in counternarcotics strategy in Afghanistan from large-scale US-led poppy eradication efforts to supporting eradication efforts that are led by the provincial governors?

Christmas Day failed terrorism attempt

1. Please clarify your comments during the hearing regarding the events that occurred after the father of Umar Farouk Abdulmutallab visited the US Embassy in Abuja, Nigeria. Was a process ever undertaken before December 25 to consider the revocation of his visa? If so, when was that begun? What security checks were not completed because Abdulmutallab's name was misspelled when it was put into the consular database?
2. What is the current procedure for deciding whether to revoke a visa? Were interagency discussions underway regarding the revocation of his visa when he boarded his flight to the US on Christmas Day?
3. In your response to questions during the hearing, were you indicating that the Department has changed the way visa revocations will be handled in the future, i.e., immediate revocations without consultation with law enforcement?
4. Do the FBI and the NSC agree with these changes?
5. Does the State Department currently have the ability to revoke a visa without consulting other agencies? If not, are there reasons why the State Department would need the ability to act unilaterally?

[CLERK'S NOTE.—Responses to the questions were not provided by the Department.]

**FY 2011 Budget Request
Questions for the Record
Submitted by Ranking Member Kay Granger
On behalf of Representative Jack Kingston
for Secretary of State Hillary Rodham Clinton**

1. Several domestic assistance programs such as WIC and food stamps apply a standard formula by which requirements for eligibility are measured. Please describe the budgetary planning process for U.S. foreign assistance programs. Are there formulas used to determine what type and level of assistance is designated per country? Why do wealthier countries such as India and China still receive international assistance from the U.S.?
2. Is the State Department's Voting Practices in the United Nations report a useful tool to measure international support for the U.S.? Are there other sources of information that provide a more accurate description of international cooperation?
3. What safeguards are in place for our foreign assistance funding to prevent the misuse of funds through corruption or inefficiencies? Is there a system in place to account for funds that were not used for their intended purpose? If so, what type of analysis is done on an annual basis with those figures?
4. Please describe the Administration's development strategy for "graduating" countries from U.S. foreign assistance. Are there recent examples of countries that have decreased the percentage of donor funding in their budget while increasing their own resources and management of programs for their populations?

[CLERK'S NOTE.—Responses to the questions were not provided by the Department.]

THURSDAY, MARCH 4, 2010.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

WITNESS

**DR. RAJIV SHAH, ADMINISTRATOR, UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT**

OPENING STATEMENT OF CHAIRWOMAN LOWEY

Mrs. LOWEY. The Subcommittee on State and Foreign Operations will come to order. Today we welcome Dr. Rajiv Shah, Administrator of the U.S. Agency for International Development, for his first official appearance before our subcommittee. I am so pleased, Dr. Shah, that you assumed these responsibilities. We are really delighted that you are at the helm of USAID and appreciate your leadership in coordinating the United States Government response to the crisis in Haiti, as well as the tireless efforts of your colleagues at USAID. We look forward to discussing your long-term vision for development and global health, and we really appreciate your taking the time to join us here today.

As I noted last week, the mounting federal debt and budget deficits, as well as the need to create jobs and support economic recovery, will make it difficult to sustain all of the priorities outlined in the President's fiscal year 2011 budget for USAID. Within the minimal proposed increases in USAID's operating expenses and humanitarian assistance, funding is requested to continue the development leadership initiative, which has been a priority of this subcommittee. With these additional staff, USAID should decrease its reliance on contractors, reduce the size of contracts and grants, and increase direct oversight of these grants and contracts, leading to better performance and outcomes.

In addition to an overview of how the DLI has been implemented over the past three years, I hope you will describe the process to ensure that the 200 new foreign service officers included in the fiscal year 2011 budget have the technical skills to carry out the Administration's and Congress's programmatic priorities. While efforts are underway to ensure that new hires have expertise in climate change and agriculture, experts on safe water, gender integration, and microfinance are also critical to the agency.

The President's proposed assistance budget prioritized three issues: global health, agricultural development and food security, and climate change. These increases, however, are funded in part by cuts in other areas, including many congressional development priorities. Basic education is reduced by \$82 million, safe water programs by \$53 million, biodiversity programs \$92 million. I hope you will explain for us how the budget for these programs was determined.

For example, is the reduced funding a result of reduced demand? In the case of education, with 72 million children in the developing world not in school, this surely cannot be the case. Education is the essential foundation for health, economic development, gender equality, and long-term security. With the growing youth bulge in the developing world, children must be given the opportunity to become productive contributors to their societies. Access to education is the first vital step in this process.

The budget's request of \$1.35 billion for food security and agricultural development would support the Feed for the Future strategy an accountable and realistic plan that should increase agricultural development, especially among the poorest of the poor. How will USAID coordinate with other private and multilateral efforts in this arena? Will the Millennium Challenge Corporation investments in agriculture be adjusted to ensure that the core principles of this initiative are incorporated in their programs?

Climate change is also a significant priority in this budget. Though increases for this initiative are primarily funded through climate funds at the Department of Treasury, I am concerned that USAID does not currently have extensive expertise in this area, and the current staffing plan calls for only 15 new officers. How does USAID intend to provide proper oversight and management of this new initiative? Because successful programs have maximum impact when efforts are well coordinated, I hope you will assure us that USAID's plans to coordinate with multilateral funds and the State Department, as well as provide insight into who is taking the lead on climate accord negotiations.

Finally, the global health initiative provides a long overdue opportunity to fully integrate our health programs. The budget includes a \$200 million reserve fund for GHI-plus countries. How will these countries be determined? What criteria will be used to make the selection? While global health programs have effectively demonstrated impact and tracked their results, the GHI strategy calls for stronger monitoring and evaluation. Please explain the additional efforts to achieve greater accountability for all global health programs, as well as steps you are taking to ensure that any changes bolster, not weaken, the effectiveness of current health programs.

Both the food security and GHI strategies prioritize the inclusion of women and girls. I have consistently voiced a need for women to be in the front and center in the development agenda, and I am encouraged by their inclusion in these initiatives. Can you outline how programs will be structured to ensure that this priority becomes a reality? Are there any other steps USAID is taking to ensure gender considerations are integrated across all programs? As these initiatives progress and USAID's workforce grows, you must have the capacity to develop robust policy options, outlining budgetary needs, monitor and evaluate programs. What are you doing to address these gaps in USAID internal capacity? Can you speak to your involvement in the presidential study directive and the Quadrennial Diplomacy and Development Review processes? Do you believe the outcome of these efforts will change or improve program implementation?

Dr. Shah, I look forward to our discussion today and working closely with you. And before we move to your testimony, let me turn to Ms. Granger, the Ranking Member, for her opening statement. Ms. Granger.

OPENING REMARKS OF MS. GRANGER

Ms. GRANGER. Thank you, Madam chair. I am very pleased, Dr. Shah, that you are with us today to provide testimony and answer questions about fiscal year 2011 and your budget request. The Administration's fiscal year 2011 request for the State and Foreign Operations Bill, as you know, is \$56.6 million, which is a double-digit increase over the fiscal year 2010 regular appropriation. Such a large increase comes at a time when domestic agencies are being cut or held at last year's levels.

I have many questions about such large funding increases going abroad during these difficult economic times at home. I look forward to hearing the justification for these increases, including the funds requested for USAID's development workforce. I want to know what we are achieving with the 700 staff already funded, and if 200 additional officers are required. As you know, I have advocated for increasing staff in order to ensure the proper balance of diplomacy, development, and defense so that we can more effectively achieve our national security goals. But these investments, of course, have to be made wisely.

I also hope the new funding requested for the Administration's initiatives, like global health, food security, and climate change, will be addressed. The increases requested for each are significant, and they come on top of new resources that were provided in fiscal year 2010. We need to better understand how these funds will be programmed, what is new and different about these new initiatives, and if such large increases can be effectively absorbed.

Another topic I hope the Administrator will address is oversight of foreign assistance dollars. Proper management and efficient use of these resources are key priorities for me, particularly during this challenging economic period. I look forward to working together with the Chair, as always, and Dr. Shah to ensure that resources provided by this subcommittee are responsibly programmed in the field. I know that only days after you were sworn in as Administrator, you were tapped to lead the U.S. government's response to the devastating earthquake in Haiti. That was an enormous responsibility, so we did not get to have some time to talk about the subcommittee and your vision for the agency you lead. I certainly understand that, but I hope we can begin that conversation today. Thank you very much, and thank you, Madam Chair, as always.

Mrs. LOWEY. Thank you. Administrator Shah, your full statement will be placed in the record. Please feel free to proceed as you will. If you choose to summarize your oral statement, I know we will leave time for questions. Please proceed, and thank you again for being with us today.

Dr. SHAH. Thank you, Chairwoman Lowey, Ranking Member Granger, and Members of the committee. I am honored to be with you today to support the President's fiscal year 2011 Foreign Operations Budget Request.

As you know, just a few days after my swearing in, I was tapped to help lead our effort to respond to the earthquake that occurred in Haiti. And this past weekend, Chile suffered a devastating earthquake as well. Our thoughts and prayers, as are yours, have been with the people of Chile and Haiti as we provide humanitarian relief and assistance. Our response in Haiti was targeted, swift and aggressive. Working with partners from across the federal government, we launched the largest and most successful international urban search and rescue effort ever. We created a robust urban food distribution system that reached more than 3 million individuals with critical food supplies at a critical time. And we increased the nation's infrastructure, especially the airport and the seaport, allowing other countries to effectively participate in the relief operation.

Our coordinated medical assistance, and direct services provided by U.S. personnel, allowed for treatment for more than 30,000 patients and performed hundreds of surgeries, saving life and limb. Haiti faces a long and steep road to recovery, and as the operation now transitions from rescue to recovery, we will continue to stand by the people of Haiti, and appreciate the support of this committee in doing so.

At the same time, we will not lose sight of our other priorities, many of which you have summarized for us, including the important work USAID does to help countries achieve their development goals, and the critical need to strengthen our own capacity and our own accountability in pursuit of this mission. As President Obama said in Oslo last December, security does not exist when people do not have access to enough food or clean water or medicine and shelter that they need to survive.

Secretary Clinton strongly shares this view, and has asked us to elevate development to stand with diplomacy and defense as part of our nation's foreign policy. We are doing so through the Presidential Study Directive on U.S. development policy and the Quadrennial Diplomacy and Development Review. Both processes allow for significant presence and representation of USAID and for myself.

The fiscal year 2011 budget request will support development priorities that contribute directly to our national security. Specifically, it focuses on three areas: critical frontline states, urgent global challenges, and aid effectiveness and accountability.

In critical frontline states, we propose spending \$7.7 billion in State and USAID assistance in support for Afghanistan, Pakistan, and Iraq. We have made some progress in each of these countries, but we realize that significant challenges remain. Our focus on Afghanistan has been achieving greater stability and security, and we are beginning to see major improvements in health, education, and agriculture.

The Administration's funding request going forward is designed to align with the President's Afghanistan strategy and is designed to encourage the stability and opportunity that allows for our military to draw down in time. In Pakistan, our request supports ongoing efforts to combat extremism, promote economic opportunities, strengthen democratic institutions, and build a long-term partnership with the people of Pakistan. The funding increase in fiscal

year 2011 will help USAID reach approximately 60,000 more children with nutrition programs, increase enrollment in both primary and secondary schools by over 1 million learners, and support more than 500,000 farm households to improve their agricultural productivity.

In Iraq, we have transitioned to a new phase in our civilian assistance relationship, shifting away from core reconstruction activities towards the provision of assistance to bolster local capacity in line with Iraqi priorities. USAID is promoting economic development, particularly in the private sector, strengthening agriculture and focusing in health and education.

Our second budget priority is meeting urgent global challenges. In this area, we request \$14.6 billion in State and USAID assistance to support local and global solutions to core transnational problems. In global health, we are requesting \$8.5 billion in State and USAID assistance in support of the President's Global Health Initiative. With this additional funding, we will build on our strong record of success in saving lives in HIV/AIDS treatment, TB, and malaria control, and seek to focus on areas where progress has lagged, such as obstetric care, newborn care, and basic nutrition for targeted populations.

In food security, we are proposing to invest \$1.2 billion for State and USAID programs in food security and agriculture, in addition to \$200 million set aside for nutrition. With these additional funds, we will work in countries in Africa, Central America, and Asia, to combat the currently rising trend of extreme poverty and unnecessary hunger and starvation.

In climate change, we propose to invest \$646 million for State and USAID programs, part of the Administration's overall \$1.4 billion request on climate change. USAID will support the implementation of focused programs in sustainable landscape investments, as well as working with countries to develop low carbon development strategies and clean energy supply and energy sector reform.

In humanitarian assistance, State and USAID propose to invest \$4.2 billion. This funding allows us to assist internally displaced persons, refugees, and victims of armed conflict and natural disasters worldwide, such as the disasters in Haiti and Chile. With these combined investments, we will save lives and help make people less vulnerable to extreme poverty.

Our third major budget priority focuses on enhancing USAID's effectiveness and accountability by investing \$1.7 billion in ongoing rebuilding efforts for USAID's personnel and infrastructure.

I want to thank the committee for its foresight and leadership in this area, especially with respect to the Development and Leadership Initiative, which we believe is central to helping our agency rebuild and be successful. We are currently rebuilding our capabilities in evaluation, planning, budget management, and policy research to ensure that we can incorporate the best practices of development and innovations from the field in our work going forward.

We also seek to recruit, hire, and retain best-in-class development professionals and accelerate the pace at which we deploy personnel to our priority areas and priority countries. By reducing our reliance on contractors to design and evaluate programs, we hope

to save taxpayer dollars and also enable greater oversight and more effective program implementation.

I know this is a time of great economic strain for so many Americans. For every dollar we invest, we must show results. That is why this budget supports programs vital to our national security and our ability to account for outcomes. The United States must be able to exercise global leadership to help countries as they develop more stable and sustainable foundations for security and well-being. This requires the effective use of all instruments of our national security, including development, and it requires a relentless focus on results and accountability, a focus we embrace with enthusiasm.

Thank you very much, and I look forward to answering your specific questions as we go through the hearing. Thank you.

[The information follows:]

Biography of Dr. Rajiv Shah

Administrator

Dr. Rajiv Shah was sworn in as the 16th Administrator of the United States Agency for International Development (USAID) on December 31, 2009. USAID, a U.S. Government agency, has provided economic and humanitarian assistance worldwide for almost 50 years.



Previously, Dr. Shah served as Under Secretary for Research, Education and Economics and as Chief Scientist at the U.S. Department of Agriculture, where he was responsible for safe, sustainable, competitive U.S. food and fiber system, as well as strong communities, families, and youth through integrated research, analysis, and education. At USDA, he launched the National Institute of Food and Agriculture, a new scientific institute that elevated the status and funding of agricultural research to be more in line with other major scientific groups. He also produced innovative initiatives in bioenergy, climate, global food security, childhood obesity, and food safety.

Prior to joining the Obama Administration, Shah served as director of Agricultural Development in the Global Development Program at the Bill and Melinda Gates Foundation. In his seven years with the Gates Foundation, Shah served as the Foundation's director of Strategic Opportunities and as deputy director of policy and finance for the Global Health Program. In these roles, he helped develop and launch the foundation's Global Development Program, and helped create both the Alliance for a Green Revolution in Africa, and the International Finance Facility for Immunization—an effort that raised more than \$5 billion for child immunization.

Prior to joining the Gates Foundation in 2001, Shah was the health care policy advisor on the Gore 2000 presidential campaign and a member of Pennsylvania Gov. Ed Rendell's transition committee on health. He is the co-founder of Health Systems Analytics and Project IMPACT for South Asian Americans. In addition, he has served as a policy aide in the British Parliament and worked at the World Health Organization.

Originally from Detroit, Michigan, Shah earned his M.D. from the University of Pennsylvania Medical School and his Master of Science in health economics at the Wharton School of Business. He has attended the London School of Economics, is a graduate of the University of Michigan, and has published articles on health policy and global development. Shah previously served on the boards of the Alliance for a Green Revolution in Africa (AGRA), the Seattle Public Library, and the Seattle Community College District. In 2007, he was named a Young Global Leader by the World Economic Forum.

Dr. Shah is married with two children. He lives in Washington, D.C.

DR. RAJIV SHAH
ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
TESTIMONY BEFORE THE
SUBCOMMITTEE ON STATE, FOREIGN OPERATIONS
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES
REGARDING THE FISCAL YEAR 2011 BUDGET REQUEST
MARCH 4, 2010

I. INTRODUCTION/HAITI

Chairwoman Lowey, Ranking Member Granger, Members of the Committee, I am honored to join you here today in support of the President's Fiscal Year (FY) 2011 Foreign Operations Budget Request.

It has been less than two months since I was sworn in as Administrator for the U.S. Agency for International Development.

As you know, just days after my swearing-in, the people of Haiti were struck by a tragedy of almost unimaginable proportions. The United States – and the American people – responded swiftly and aggressively to this unprecedented disaster -- a response that reflected the leadership and compassion of our nation.

This past weekend, Chile suffered a devastating earthquake as well. Our thoughts and prayers are with the Chilean people at this tragic moment and we are working with the Government of Chile as they evaluate their needs to determine what assistance may be required.

In the immediate aftermath of the earthquake in Haiti, President Obama designated me as the Unified Disaster Coordinator and charged our government with mounting a swift, aggressive and coordinated response. In that capacity, we have coordinated the efforts of the Departments of State, Defense, Homeland Security, and Health and Human Services. We worked collaboratively with the Government of Haiti and a host of other governments, the United Nations, other international organizations, NGOs, the private sector, and with thousands of generous and concerned individuals. Together we have provided a comprehensive response to a complex disaster whose scope far exceeds any other that the Administration has faced internationally and one that requires a continued aggressive and unique approach.

Our unprecedented level of coordination in response to these challenges has shown results on the ground. With our partners, we launched the largest, and most successful international urban search-and-rescue effort ever – with more than 135 lives saved.

In coordination with Haitian authorities, our military, the United Nations, and NGO colleagues, we created a fixed distribution network to surge food distribution to nearly 3 million people – the most robust urban food distribution in recent history. Within thirty minutes of landing on the ground, the U.S. military secured the airport, and in the hours that followed, rapidly expanded its capacity to well beyond pre-earthquake levels. The United States also helped to restore a critical

sea port, thereby scaling up the delivery of essential goods and restoring commercial capacity. And our partners at the Department of Health and Human Services provided medical assistance that enabled an additional 30,000 patients to receive treatment.

Nevertheless, we all know that Haiti faces a long and steep road to recovery. Reconstruction will take time and will require the shared commitment and resources of our international partners, working in concert with the Government and the people of Haiti. But I can report to you today that while we have experienced our share of frustrations and setbacks, America's efforts have made, and continue to make, a vast difference. As the operation transitions from rescue to recovery, the United States will continue to stand with the people of Haiti.

II. GUIDING PRINCIPLES AND OVERVIEW

Recovery in Haiti will continue to be a major focus for the foreseeable future. But we will not lose sight of the important work of strengthening USAID and helping other countries achieve their development goals. Investment in development has never been more strategically important than it is today. Helping nations to grow and prosper is not only the moral obligation of a great nation; it is also in our national interest. The investments we make today are a bulwark against current and future threats – both seen and unseen – and a down payment for future peace and prosperity around the world.

As Members of this Committee know very well, development is an essential pillar of our foreign policy. As President Obama said in Oslo last December, “Security does not exist when people do not have access to enough food, or clean water, or the medicine and shelter they need to survive.” Building the capacity of countries to meet these basic needs – providing their people with a modicum of dignity and opportunity – is what guides our work and the resources we put behind it.

While the scope and complexity of the world's challenges have grown – from the food crisis to the global financial crisis, terrorism to oppression, climate change to pandemics – we have never had the technology, resources and global imperative for action that we have today. Together with other government agencies, USAID is examining our resources and capabilities to determine how best to achieve our development objectives through the Presidential Study Directive on U.S. Development Policy and the Quadrennial Diplomacy and Development Review. And already, we are moving to face these challenges, guided by the following important principles:

- Working in **partnership, not patronage** with the countries we serve.
- **Leading and coordinating across U.S. agencies and among donors and partners** for maximum impact.
- Ensuring **strategic focus with targeted investments in** areas where we can have the greatest impact with **measurable results and accountability**.

- Embracing **innovation, science, technology and research** to improve our development cooperation; and
- Enhancing our **focus on women and girls**.

The FY 2011 budget request will support development priorities that contribute directly to our national security. Specifically, our request is focused on three priority areas:

- *Securing Critical Frontline States* – \$7.7 billion in State and USAID assistance will support U.S. development efforts in Afghanistan, Pakistan, and Iraq.
- *Meeting Urgent Global Challenges* – \$14.6 billion in State and USAID assistance will support local and global solutions to national and transnational problems, including global health, poverty, natural and manmade disasters, and threats of further instability from climate change and rapid population growth.
- *Enhancing Aid Effectiveness and Sustainability* – \$1.7 billion will support the ongoing rebuilding of USAID personnel and infrastructure.

III. SECURING CRITICAL FRONTLINE STATES: AFGHANISTAN, PAKISTAN, AND IRAQ

By far the largest component of our requested budget increase is dedicated to the critical states of Afghanistan, Pakistan and Iraq. We have made some progress in each of these countries, but we realize that significant challenges remain.

Over the past several years, our focus in **Afghanistan** has been achieving greater stability and security. Working within a fully integrated civilian-military plan, our goal is to create space for economic investment and to lay the foundation for a more representative, responsible and responsive government. We believe these investments are key to providing sustainable security and stability in Afghanistan.

We are gradually delivering more of our resources through public and private Afghan institutions and these efforts have been successful so far. We are performing careful and diligent oversight and directing resources to local institutions and partners who perform well.

We are beginning to see major improvements in the Afghan health care system. In 2002, just 8 percent of the population had access to some form of health care, but by 2009, that number had increased to 84 percent.

We have also made significant strides in education. Under the Taliban, only 900,000 boys and no girls were officially enrolled in schools. As of 2009, more than 6 million children were enrolled, 35 percent of whom are girls. One of our biggest economic accomplishments in Afghanistan has been to begin to rejuvenate the agricultural industry. In November of last year, with USAID support, Afghan provincial farmer associations sent to India the first shipment of what is expected to be more than 3,000,000 kilograms of apples this season.

USAID has also been active in developing a coordinated Afghan energy policy, and helped advance new electricity generation capacity and provide 24-hour power for the first time in cities including Kabul, Lashkar Gah, and Kandahar City. With additional resources, we expect a half million people will benefit from improved transportation infrastructure.

In **Pakistan**, our request supports ongoing efforts to combat extremism, promote economic development, strengthen democratic institutions, and build a long-term relationship with the Pakistani people. We are focusing on programs that help demonstrate the capacity of local civilian governance to meet the Pakistani people's needs, and channeling assistance to less-stable areas to rebuild communities and support the Government of Pakistan's counterinsurgency efforts.

USAID and our partners in Pakistan have made progress in several areas. In 2009, we expanded educational opportunities, rebuilt schools and increased support for higher education. We trained 10,852 health care providers, 82 percent of whom were women, and provided essential care to nearly 400,000 newborns. Over the life of our program, we have helped treat 934,000 children for pneumonia, 1.6 million cases of child diarrhea, and provided DPT vaccines to 731,500 babies through training programs for health care workers.

We have also focused on generating economic opportunities for the people of Pakistan, contributing to the country's stability. USAID programs generated more than 700,000 employment opportunities in 2009, including training more than 10,000 women in modern agricultural techniques.

The funding increase in FY 2011 for Pakistan will help USAID reach approximately 60,000 more children with nutrition programs, increase enrollment in both primary and secondary schools by over 1 million learners, and support 500,000 rural households to improve agricultural production.

Finally, turning to **Iraq**, we have transitioned to a new phase in our civilian assistance relationship – shifting away from reconstruction toward the provision of assistance to bolster local capacity in line with Iraqi priorities. Indeed, we are working in partnership with the Government of Iraq whose investment in their own development matches or exceeds at least 50 percent of U.S. foreign assistance funds.

Specifically, USAID is promoting economic development, strengthening the agricultural sector, which is the largest employer of Iraqis after the Government of Iraq, and increasing the capacity of local and national government to provide essential services. For example, USAID is strengthening public administration, strategic planning and project management in critical Iraqi ministries by supporting 180 international post-graduate scholarships in programs related to public administration for Iraqis at universities in Cairo, Amman, and Beirut. The additional funding requested will also promote small and medium enterprise growth, strengthen the Iraqi private banking sector and increase access to lending for entrepreneurs engaged in new market opportunities resulting from improved stability.

IV. MEETING URGENT GLOBAL CHALLENGES

In addition to supporting these critical frontline states, we are targeting investments to assist with urgent global challenges that – if unmet – can compromise the prosperity and stability of a region or nation.

First, **global health**, where we are requesting \$8.5 billion in State and USAID assistance. Our request supports President Obama’s Global Health Initiative, which builds on prior U.S. international health programs and helps our 80 partner countries strengthen health systems and improve sustainable health outcomes, with a particular focus on women, children and newborns. This initiative will be carried out in collaboration with the Department of State and the Department of Health and Human Services to ensure complementarity among our programs and that together we leave behind sustainable health care systems that are host-country owned.

With additional funding, we will build on our strong record of success in HIV/AIDS, TB and malaria, and achieve results where progress has lagged, in areas such as obstetric care, newborn care and nutrition. The initiative will include a special focus on up to 20 “GHI Plus” countries where we will intensify efforts to ensure maximum learning about innovative approaches for working with governments and partners, accelerating impact and increasing the efficiency and effectiveness of U.S. government investments.

Second, to support **food security**, we propose investing \$1.2 billion for State Department and USAID food security and agricultural programs, in addition to the \$200 million set aside for nutrition programs that support the goals of improved global health and food security. These funds are in addition to the emergency and non-emergency food assistance we provide. There is a strong link between security and hunger, made clear in 2008 when the global food crisis led to a dramatic rise in food riots in more than 30 countries around the globe. With these additional funds, we will work in countries in Africa, Central America, and Asia to combat poverty and hunger. Our work will draw upon relevant expertise across the United States government to deliver the most effective programs possible.

Our third principal challenge is **climate change**. We propose to invest \$646 million for State Department and USAID programs, part of the Administration’s overall request of \$1.4 billion to support climate change assistance. USAID will support implementation of adaptation and sustainable landscape investments, as well as low-carbon development strategies, market-based approaches to sustainable energy sector reform and emission reductions, capacity-building and technologies to enhance adaptation and local resilience to climate change in partner countries. We plan to expand renewable energy programs in the Philippines, improving electric distribution systems in Southern Africa, and support high-level bilateral climate change partnerships with major economies like India and Indonesia.

Finally, we remain focused on **humanitarian assistance**, including emergency and non-emergency food aid, where USAID and the Department of State propose to invest \$4.2 billion. The tragedy in Haiti brings clarity to both the critical need for America’s leadership on humanitarian assistance and the strong support from the American people that such efforts enjoy. This funding allows us to assist internally displaced persons, refugees, and victims of armed conflict and natural disasters worldwide.

With the combined investments proposed in global health, food security, climate change and humanitarian assistance, we will save lives and help make people less vulnerable to poverty and the threat of instability that extreme poverty breeds. In so doing, we honor our basic values, strengthen our national security and promote our national interests.

VI. ENHANCING AID EFFECTIVENESS AND SUSTAINABILITY

All of the priorities I have outlined require well-trained personnel and robust infrastructure. We must treat development as a discipline. This requires strong capacities in evaluation, planning, resource management, and research to ensure we are incorporating best practices. At the same time, we must be able to recruit, hire and retain best in class development professionals.

As we build our workforce, we must reclaim the Agency's historical leadership in science and technology. We must also strengthen USAID's capacities to identify, implement, and rigorously evaluate new and existing approaches that reward efficiency, effectiveness, and sustainability. We must have the capacity to analyze, plan, and invest strategically for the long term. And most important, we must stay relentlessly focused on results – which means establishing baseline data, measuring progress, being transparent about both our successes and our failures - learning from both and improving our approach as we go forward.

Our Fiscal Year 2011 budget request represents a vital investment in our human resources, and I want to thank the Committee for its foresight and support for the Development Leadership Initiative. The additional resources requested will allow us to bring on 200 new Foreign Service Officers, furthering our goal of doubling the size of our Foreign Service Corps. Fields of particular focus are education officers, agriculturalists, stabilization, governance and reconstruction officers, global health officers and evaluation experts.

This long-term investment in human resources is critical to help fill a shortage of experienced middle- and senior-level technical experts and managers. Equally important, by reducing our reliance on contractors to design and evaluate programs, we will not only save taxpayer dollars but also enable greater oversight and more effective program implementation.

Through these critical investments, we can achieve the development goals we have set around the world and restore USAID's standing as the world's premiere development agency.

VI. CONCLUSION

Our objective each day is to seek out these best practices, learn from them, and adapt them to everything we do. We are committed to transparency in both our successes and our failures – viewing both as opportunities to learn and improve.

I know this is a time of great economic strain for so many Americans. For every dollar we invest, we must show results. That is why this budget supports programs vital to our national interests. The United States must be able to exercise global leadership to respond to

crosscurrents of a complex world. This requires the effective use of all instruments of our national security – including development. We agree strongly with President Obama and Secretary Clinton’s vision of embracing development as indispensable to American foreign policy and national security.

It is through this relentless dedication to results that we do justice to our motto, “from the American people.” We do this not just by extending a helping hand, but by sharing the hopefulness of the American dream in places where hope remains shrouded by poverty, oppression and despair.

In many cases, the balance between a future filled with fear and a future filled with hope is fragile. Every day, USAID tips the scale toward hope and opportunity.

Thank you very much.

Mrs. LOWEY. Thank you. I gather there is a vote, one 15-minute vote, followed by two 5-minute votes.

But let me proceed quickly because our discussion, I know, will be very important. I am going to be calling on Members based on seniority who were present when the hearing was called to order, and I will alternate between majority and minority. And we are going to each keep our questions to five minutes, including myself.

As you well know, I am a strong believer in coordination and have been encouraging USAID and the State Department to improve and streamline their interagency effort. I can still remember a trip not too long ago to Africa where I made a point of asking the Ambassador, bring everyone together who is doing anything. Well, it was a wonderful gathering, about 50 people. No one knew anybody, and I thought it was a very productive meeting. And I think what was key there was that everyone was doing excellent work, but they were doing it in their own stovepipes of excellence, and they really did not know each other.

So I think it is absolutely essential that we bring people together, and that the agency knows who is doing things in the private sector. It is absolutely essential, not only to be effective, but to save dollars.

I know that Secretary Clinton shares this strong interest in coordination, and her efforts to establish food security and global health strategies reflect this vision, and I am pleased you have made this a priority. Maybe you can tell us how you are incorporating the principle of coordination into USAID programs. I was pleased to see USAID/DOD collaboration in Haiti as the lead agency in the Haitian relief efforts, and what lessons have you learned. So perhaps we will begin with those two. Thank you.

Dr. SHAH. Thank you, Madam Chairwoman. I would like to start with global health. That is an area where I am actually very proud of the way we are approaching our work. We have established a governance group for global health that includes the leaders of all of the major implementing programs, from NIH to CDC to USAID to the State Department's Office of the Global AIDS coordinator.

Mrs. LOWEY. What about international?

Dr. SHAH. Well, we are doing that here in Washington, and we have established an operational group that will focus primarily on USAID programs working with CDC and PEPFAR, since those are the largest groups present in countries and in Missions.

Mrs. LOWEY. Would you bring the information at least to these gatherings as to what are the countries doing, certainly, and what the private—CGI is doing so much, Nike—I can go on, Bill Gates.

Dr. SHAH. Absolutely.

Mrs. LOWEY. And Melinda.

Dr. SHAH. So thank you. We have reached out, for example, to more than 20 countries. We are surveying the specific full-range of health-related activities, both in U.S. Government programs and across major partners, foundations, other donors, and multilateral institutions, like the Global Alliance for Vaccines and Immunization and the Global Fund, both of which we have reached out to specifically. What we will then do is select a smaller subset of those countries for the initial implementation.

That implementation will involve us sitting down, looking at all of our contracts and programs, literally unpacking the portfolio of work, and entering into a new long-term partnership with the government and with other partners that is much more systems oriented, much more focused on a set of outcomes that are not simply disease-specific treatment outcomes, but maternal health outcomes, child health outcomes, and where all of our partners that receive our funds have a very specific exit strategy.

It may be a long time before they are able to exit and the governments can take over the responsibilities of providing services, but they nevertheless need to be thinking about sustainability and exit from the beginning. And I think it is going to be a challenging process to go through that because it will involve rewriting contracts, restructuring programs, setting new outcomes. But it puts our entire programmatic approach on the table, as opposed to simply programming in a small increment of additional resources. And by doing this, we hope to significantly improve the effectiveness.

I was talking just yesterday with the Global Alliance for Vaccines and Immunization. They have set aside nearly a billion dollars for health system strengthening, and we can leverage some of those funds by encouraging them to partner with us in these countries. So we will use the themes of focus, of leverage, of being very results oriented, and fundamentally changing the way we do our contract and outsourcing work to be systems oriented and more respectful of and in a deeper partnership with government. And that process is already underway. I suspect we will have selected countries by the end of April based on country feedback, based on other partners, and based on a country's commitments to take forward and sustain these big investments in their health sector.

HAITI

Mrs. LOWEY. Tell us about coordination in Haiti. I think it is important that we understand how that has been proceeding.

Dr. SHAH. So in Haiti we have set up an office of the relief coordinator as part of the USAID group there, and we have a joint task force with the military, JTF Haiti. Between those two organizations, we are effectively allowing the entire humanitarian community to source tasks to the U.S. military in order to complete those humanitarian assistance tasks. And we track those taskings. We organize and prioritize them. And we do really work together as a community. In order to achieve many of the outcomes we have talked about, we leveraged heavily the U.S. Department of Agriculture, the Department of Health and Human Services, a number of the U.N. partners, but it really was that Office of the Relief Coordinator we established that brought together the military, the international humanitarian assistance groups, and other U.S. agencies in what is a challenging environment, but I think a far more effective coordinating environment.

The feedback I have gotten from NGO partners has been that their experience of engaging in that process and with the military has been better than in prior disaster relief situations, and we hope that this will become a model going forward for how to expand and coordinate the effort and humanitarian responses.

Mrs. LOWEY. Before I turn to Ms. Granger, I would like to say that I hope you can keep us up to date on that because it is well known that there are thousands of NGOs that were operating in Haiti before this disaster, and currently are operating in Haiti. And many people will comment, so what were they doing? Now we know because we interact with these people—we know that they are good people accomplishing good work, and the challenges are enormous. But I think it is very important that when contracts are given, and when NGOs are functioning, that there is really an understanding about how their work fits in as part of the whole, and that we have expert accountability sessions. I think it is absolutely essential.

Again, where I started, when the economy is in such distress here—and the American people are good people; they want to help. But they want to be sure that the money is not going down the tubes to keep people employed, but that it is going to do good work. So I think this whole issue of coordination, accountability, working with all of the actors in the region, and your ability to let us know who is doing what and what is needed at any time is really essential.

Thank you. Ms. Granger.

Ms. GRANGER. Thank you. I want to return to your emphasis on global health. I know that pandemics are a global issue, by definition. I served on the Labor and HHS subcommittee, and that is when I first worked with pandemics. I know that USAID has made significant efforts to combat these deadly viruses.

On February 24th, the World Health Organization noted specific concerns about the recent spread of a virus in West Africa and the possibility of future outbreaks when winter arrives in the southern hemisphere. I am also still keeping my eye on H5N1, which has already claimed, as you know, lives in Egypt and Vietnam this year. I know USAID has taken steps to acquire pre-pandemic vaccines for your effort to combat these viruses on a global scale. I am also aware of the important role of antivirals, such as Tamiflu, in combating influenza pandemics. In 2009, the Congress provided \$50 million and reprogrammed \$35 million to prepare for the H1N1 pandemic. How are these funds being programmed? And now that the H1N1 thankfully was not as severe as predicted, have USAID's plans changed? Specifically, are both vaccines and antivirals being stockpiled and at what levels? What progress is being made? I am very concerned about the ability to have these plans and antiviral resources in place. Could you address that?

Dr. SHAH. Well, thank you. We are very specifically focused on this. We have been working in a close partnership with both the World Health Organization, as part of the larger international pandemic influenza response and surveillance activity, and with CDC in that context. I request the opportunity to get back to you on the specifics of what we have stockpiled and which particular commodities and products we have purchased and in what volumes with respect to that.

[The information follows:]

**Administrator Rajiv Shah
March 3, 2010**

Pandemic Flu

Dr. Shah:

In addition to the \$50 million provided in the FY 2009 supplemental for the H1N1 pandemic, USAID has reprogrammed for the same purpose \$35 million from its FY 2009 Avian and Pandemic Influenza (API) appropriation for a total of \$85 million. These funds have been used to support three lines of H1N1 related work: 1) deployment of the H1N1 vaccine; 2) upgrading of the surveillance and laboratory capacities of 26 countries; and, 3) support for community-based, non-pharmaceutical interventions.

Status of the U.S. Vaccine Pledge of 25 Million Doses: The actual delivery of vaccines to countries, as part of the WHO H1N1 vaccine initiative, has been hampered by a combination of factors. Original plans called for the first deployment of vaccines to countries to begin in December 2009. However, prior to delivery, WHO has required countries to complete three steps: 1) request donated vaccines; 2) sign an agreement accepting terms and conditions of support; and 3) develop a national vaccine deployment plan. A significant constraint has been the acceptance by countries of the terms of the donation, which involves the signing of a vaccine liability waiver, though significant progress has been in recent weeks. By the beginning of March only 15 countries had signed agreements with WHO. Since then significant progress has been made. As of

April 4, 82 of the 94 countries that have requested vaccines from WHO have now signed donation agreements, including the liability waiver. Of these, 49 have completed national deployment plans with USAID assistance and a total of 26 countries have now received 10.3 million doses of vaccine. By the end of April WHO is expecting another 21 countries will have received 13 million doses of vaccine, with USAID's providing the required ancillary materials.

A second constraint has been production difficulties faced by the vaccine manufacturers that delayed WHO's access to the vaccine until January 2010. The U.S. Department of Health and Human Services (HHS), which is responsible for providing the U.S. vaccine donation, made 5 million doses (of the 25 million pledge) available to WHO in early March. USAID subsequently shipped the donation in mid-March to Pakistan (3 million doses) and the Philippines (2 million doses) along with the necessary ancillary materials. The remaining 20 million will be made available as countries complete the three preconditions required by WHO.

A third factor, and the most significant affecting demand for the vaccine, has been the relative mildness of the pandemic. There were initial concerns that the H1N1 virus could further mutate as it spread around the world. Evidence through the beginning of March 2010 indicates this virus has not further mutated and continues to pose a limited threat. Therefore, countries are increasingly reluctant, given the human and financial costs, to commit to deploying an H1N1 vaccine. In light of these observations, WHO is currently reviewing its H1N1 vaccine initiative and options for how best to address the H1N1 pandemic virus threat.

Update on USAID's Activities: While recent epidemiological observations have eased initial concerns about the threat posed by the H1N1 virus, USAID, in keeping with President Obama's pledge of technical and operational assistance, has been providing support since September 2009 to 53 of the 95 countries targeted by WHO for receipt of the donated vaccine. This assistance has included: support for development of national H1N1 immunization deployment plans, logistics and cold-chain assistance for transport of the vaccine, training of vaccinators and other related professionals, development of targeted communications materials in support of the vaccination campaigns, and support for post-marketing surveillance for adverse effects. In addition, USAID has established a global stockpile of ancillary vaccination materials (e.g., syringes and safety boxes) sufficient to support the immunization of 41 million health workers. These materials are deployed to each country as they receive the WHO donated vaccine. USAID also took steps early in the pandemic to reserve 1 million doses of the antiviral Tamiflu, to be drawn down in the event that the H1N1 virus became more virulent. In light of the continued mild nature of the virus, USAID has canceled its procurement of the antiviral.

H1N1 Surveillance and Response: The emergence of the H1N1 pandemic virus in April 2010 focused attention on the limited worldwide capacity to track and monitor the spread of the virus — particularly in low-income countries across the tropics where capacities for monitoring influenza viruses are virtually non-existent. As provided by Congress, USAID will use the emergency funding of \$50 million to address this shortfall specifically. Through USAID's direct investments in WHO's Global Influenza Surveillance Network (GISN) and in strengthening national surveillance and laboratory capacities, this funding has been critical to providing timely data from countries across

Africa, Latin America, the Middle East, and Asia to: better understand the epidemiology of the pandemic and, in particular, to be able to identify groups or populations of people who might be particularly vulnerable to severe and life-threatening infection; strengthen surveillance and laboratory capacities in 26 countries for rapid diagnosis of the H1N1 virus – 16 in Africa and 10 in South America; support H1N1 sample transport in 17 countries for diagnosis in regional laboratories; provide virus isolates for monitoring possible mutations in the virus that could signal it is becoming more deadly; inform local pandemic planning; and ensure there is an appropriate platform for “post-marketing surveillance” of any vaccination campaign. Central to USAID’s support for H1N1 surveillance and response has been a strong collaborative partnership between USAID and the U.S. Centers for Disease Control and Prevention (CDC). The drafting of a “Global 2009 Joint USAID/CDC Pandemic Influenza Surveillance and Response Plan” has been the basis for a coordinated cross-Agency provision of technical and operational assistance.

Ms. GRANGER. And also how you determine the amount of those antivirals. If you could get back to me on that, I would appreciate it. Since I have a little more time, I would also like to ask you one more question. I know that in the previous Administration, the USAID Administrator was dual-hatted as a Director of Foreign Assistance, a position that was created within the State Department. So I would like to know what you are going to do about that position. And again, returning to what the Chair asked about, the coordination of foreign policy agencies, what principles will be applied in that coordination, and delivery approaches?

Dr. SHAH. Well, thank you. I think we are very closely coordinated with the State Department. In fact, I report to the Secretary, and we take that very seriously. We have a regular development meeting, which is a standing essentially one-on-one discussion. We have a series of other ways to report and plug in on a set of priorities.

In terms of the specific question of the organizational structure, we are working through a lot of that through the QDDR and the PSD processes. Those processes are now in a much more specific operational frame. So phase two of the QDDR, which is the phase we are currently in, is working specifically to develop a handful of operational plans that we can then propose in the April/May time frame. And that, I think, will address a number of these things.

I would just return to one point that I made previously when I was confirmed, which was simply that the Secretary has been very committed, as is the White House and our own agency, to rebuilding our capacities to be more effective and more accountable. So we are building our policy planning capacity. We are reshaping our evaluation work, and hired Ruth Levine, a preeminent scholar from the Center for Global Development, to lead that effort. We have a new effort underway to build our budgeting processes in a way that allows for more transparency and accountability because ultimately accountability is making those tough tradeoffs. And we want to be held responsible for that.

So we are doing that in partnership with the State Department. And as the QDDR rolls out recommendations, I think that will make that more concrete.

Ms. GRANGER. Thank you, Madam Chair.

Mrs. LOWEY. What we will do is recess, probably for about 15 minutes.

Dr. SHAH. Thank you.

[Recess]

Mrs. LOWEY. Thank you for waiting for us, and the hearing will come to order. And we turn to Mr. Israel or Ms. McCollum.

Ms. MCCOLLUM. Thank you, Madam Chair. Well—

Mr. ISRAEL. Actually, she asks better questions than I do anyway.

Ms. MCCOLLUM. Well, actually, technically Mr. Israel and I got here together, both on the committee and the Congress. Good morning, Doctor, and welcome to all of your hardworking staff that are with you. Your vision to restore USAID as the world's premiere development agency is critically important to the success of this country's international policies. As a member of the subcommittee, I am committed to making this vision a reality. I want to evaluate

and strengthen USAID and ensure your agency has the authority and the resources it needs to focus on long-term development rather than crisis response and contract management.

This is an exciting moment for USAID and for global development. In this past year, President Obama has launched two major initiatives, global food security and global health. I applaud these commitments from the President. Food security and global health are my highest priorities in global development. Following today's hearing, I would like to talk to you more about both of these efforts.

At last week's hearing, I had the opportunity to discuss with Secretary Clinton about food security, and I would like to discuss global security here with you today. Specifically, I want to talk about America's efforts to save the lives of children around the world. As a physician, as a development expert, and a parent, you know better than anyone that the most basic measure of a country's development is whether or not its children survive. You know that dollar for dollar, U.S. investments in child survival produce some of the best results because we have simple, inexpensive, and effective interventions. And I am encouraged to see the global health initiative is beginning to rebalance U.S. global health investments.

Child survival and maternal health, neglected disease, and family planning are finally starting to receive more resources, but the rebalancing must continue. According to the Kaiser Foundation, in the first year of a global health initiative, just 6 percent of the total \$8.6 billion went towards maternal child health. HIV programs received 64 percent. We need to do more to save the lives of children. Child deaths are now at the lowest level in history, but we still lose 24,000 under the age of five every day, 24,000 children under the age of five every day.

The September 9th article in the Lancet found the rate of decline under five mortality as so grossly insufficient to have the Millennium Development goals by 2015, particularly in sub-Saharan Africa and South Asia. Your global health initiative sets a goal of saving 3 million children, but it also states that nearly 9 million children die every year from preventable cause.

I am going to challenge you and the President to set a more ambitious goal. With political will, we can close the gap between 3 million and 9 million children's death. This year's budget includes an increase for child survival and maternal health. So here are my questions. Please share with the committee how this investment will be targeted and what results the funding will produce. How do investments that save the lives of children and mothers fit into the overall global health initiative? And how will the new focus on integration across all global health programs work in practice?

You are a numbers person, so I would like to hear some of the analysis from you as to what we can expect from our return in investment and saving the lives of children. Thank you, Madam Chair.

Dr. SHAH. Over the past 10 years, we have had tremendous progress in maternal and child health in both of those groups. As you identify, maternal and child health indicators, like neonatal mortality and maternal mortality have lagged and are projected to

continue to lag such that we will not hit the MDGs. So the global health initiative is targeting exactly that statistical gap between hitting the MDGs for those indicators and missing that measure of success. And so we will basically focus on a few interventions to help make that happen.

The first is integration at the health system level. By unpacking our projects and putting them back together against a set of specific indicators that relate to maternal and child health, we will effectively have significant additional resources going to child health and to maternal health.

So, for example, we will look at existing implementation of PEPFAR projects. And in cases where we can get both the mandated outcomes for those programs as well as use those resources to help strengthen the health system and train health workers to be skilled attendants at birth, for instance, that is a win-win, where you can use existing resources to get better maternal health outcomes in a focused way.

We will do that also with our GAVI partnerships and our resources there. Instead of just training immunization workers, those workers can also be skilled attendants at birth. They can be doing a broader range of things. And we will be looking for those synergies and those investments.

The second part of it is integration at the point of service. So a pregnant woman and a child under two really should not have to go to three different places or get care from different providers. We will really focus on integration at the point of service so that there is a single place to go, and there are more streamlined interventions. We can do that across intermittent preventive therapy for malaria, for example, kids provided with immunization. Like that, you can do a lot of joint provision of services at the point of delivery, and we are exploring how to do that.

And then finally, we will have some additional resources that will target specifically those vulnerable populations. Right now, those additional resources are maternal health, child health, and nutrition. I think nutrition is often not described as being as important as it is. But targeted feeding programs in the minus nine to two years of age effort done through a health system is probably the single most cost effective intervention, outside of basic immunization, in terms of improving the quality of life and getting years of life at a relatively low cost. And so we are really focusing on that, and I think that represents more than a doubling of the actual investment in that state. And I hope personally that we can use that as the point of an arrow and really bring together both the health and food serving initiatives in a way that will give us a much bigger outcome for the investment.

So those are just some examples. But as I mentioned, in 20 countries, we are actively starting this process of looking at how we will achieve these integrations in those specific areas.

Mrs. LOWEY. Thank you. I understand Mr. Kirk is very gracious, and will defer to Mr. Israel.

Mr. ISRAEL. Thank you, Madam Chair. And thank you, my colleague Mr. Kirk, who will be missed on this committee, but going on to bigger and better things.

Administrator, I have been focused on a project that has recently been funded, thanks to the bipartisan cooperation of this subcommittee, and that is solar villages microfinancing. And I am focused on that as a national security imperative. I used to be on the Armed Services Committee, and when I was on the Armed Services Committee, and I would question generals and admirals as to what elements we need for stability and security in remote and dark areas of the world, the answer would consistently be, well, number one, you need the empowerment of women; number two, you need small business models; and number three, you need light so the parents can read to their kids and keep their streets safe. Terrorists do not like recruiting in the dark. And from that, we modeled something called the Solar Villages Initiative, which would provide microfinancing in developing areas of the world to deploy solar panels, charge solar lanterns, cell phones, generators, dig wells, et cetera.

This subcommittee provided \$10 million in financing to start that up. Last week, Secretary Clinton acknowledged that the funding is in process. I think you are going to send somebody up to meet with me shortly to talk about the allocations. I just wanted to make sure that this was on your radar. And we have not had an opportunity to talk about your own views with respect to these programs, and I am interested in hearing your assessment as to their viability.

Dr. SHAH. Well, thank you, and thank you for your leadership on that issue. I used to carry with me a solar-powered flashlight. And even in the context of Haiti, we have had a number of the partners that we might work with in this particular initiative also reach out and offer solar-powered streetlights and those types of items—as contributions to the Government of Haiti.

We have taken a position that we would like to accept those things, and then sometime during the reconstruction next year or the year after put them to use when that can be prioritized. So I recognize how important and how valuable this is. I also think the intersection between using microfinance in a sustainable way, connected to the dissemination of these products and services, is a great intersection. We have seen that work successfully in some areas like Grameenphone, where they did this with mobile phones in Bangladesh. We have seen it be less successful in some other areas. So we hope that we can design programs that work in the space of using better energy technologies.

I think as our teams work with you, we would like to learn more, and I would love to spend more time with you specifically to understand the full range of technologies we should be thinking about in the context of a solar village framework. There are great new technologies, as you know better than anyone, that range from the flashlights to the streetlights to other solar heating tanks and other things. So there are a range of technologies we would like to look to. And it is a priority for us to actually invest both in the development of these technologies and the deployment, using sustainable systems, whether that is microfinance or bottom- of-the-pyramid business models that can allow for things to be sold, but because of savings makes sense for consumers to buy. And we just want to understand the frame. We will present to you the set of

thoughts we have, and we would like your feedback on whether those meet the frame that you were thinking of.

But I am very optimistic that someday distributed small-scale clean energy solutions that are essentially off-grid will offer a huge amount of human benefit in low-income parts of the world, rural communities, and that, potentially could bring more people energy than traditional grid-based systems over a 20-year period. So I think it is a ripe area for investment.

Mr. ISRAEL. Thank you very much, Mr. Administrator. And again, I thank my friend from Illinois for his courtesy.

Mrs. LOWEY. By the way, Mr. Israel, you have other good company, too, carrying around the solar flashlights. Before the disaster in Haiti, I had an opportunity to interact with President Bill Clinton, and the first thing he showed me was a solar flashlight. So you have applause far and wide. Mr. Kirk.

Mr. KIRK. This committee has funded a very expensive partnership vetting system for assistance to Gaza and the West Bank, which we are now in the second years of delay by the administration. The partnership vetting system is wildly unpopular with NGOs in the West Bank and Gaza because they just want the money, and they do not want much accountability. It should be wildly popular with AID because this is a time bomb waiting to go off in your PR shop when you fund a terrorist sponsored organization.

Deputy Secretary Lew promised us that we would rapidly see this expensive and extensive PVS system that the Chairman and I and others of the committee have backed implemented. But still zip from you guys.

Dr. SHAH. We do have, as you know a very strong system in place in Gaza and the West Bank. And so you do know better than anyone how it works and how robust it is. We have been working with the State Department and other interagency colleagues to abide by congressional guidance to design and roll out a pilot of that system in a broader set of contexts.

So we have been working with our NGO partners. We believe we have that pilot ready to be deployed. By Congressional mandate, it needs to be deployed both across AID programs and across State Department programs as well.

Mr. KIRK. But you are two years late already, and you have got kind of a time bomb waiting to go off. It looks like because of pressure from the NGOs you do not want to implement it.

Dr. SHAH. Well, we have been in very close context with our NGOs. We have a plan to do—

Mr. KIRK. That is what I am saying.

Dr. SHAH. Yeah.

Mr. KIRK. That they are delaying your ability—

Dr. SHAH. I will say we are not bowing to pressure from our partners and our NGOs. We think we have—

Mr. KIRK. So how many more years do we go before you implement this?

Dr. SHAH. Before we implement the pilot?

Mr. KIRK. Yeah.

Dr. SHAH. Well, you know, so we will be on the Hill to brief the Committee on March 16th to talk about the specific rollout of the

pilot. I do not think it will be many years. I think it will be—I do not want to commit myself to saying it will be this year, but we have the construct—

Mr. KIRK. Oh, so you are saying even by December 31st you will not have this implemented?

Dr. SHAH. We have the construct of this designed.

Mr. KIRK. Right.

Dr. SHAH. We are working with the State Department to make sure that we meet the congressional mandate to be able to roll this out across U.S. AID programs and State programs jointly—

Mr. KIRK. So before I go to the news media, you cannot even promise by the end of this year that this will be implemented?

Dr. SHAH. I believe it will be implemented. I believe the pilot will roll out this year, but I will—

Mr. KIRK. But you cannot promise that. Because you are the AID administrator. How about promising this committee that by the end of this year, it will be implemented. Take a leap.

Dr. SHAH. Look, I want to make that commitment. We know we can do it across our AID programs.

Mr. KIRK. Right.

Dr. SHAH. We have vetted this with our partners. We have developed a pilot framework. We have to check that we can do that across the State Department programs as well because the law mandates that we do it in a joint fashion, which makes good sense. So I can commit on behalf of AID—

Mr. KIRK. So it looks like the Kirk amendment will be necessary to order you to do this.

Dr. SHAH. I do not think so. I think we have been working aggressively on this. We will come out with a very specific plan on March 16th. I think it is the 15th or the 16th.

Mr. KIRK. With a date for implementation?

Dr. SHAH. With a date for implementation or—

Mr. KIRK. That will be in this year.

Dr. SHAH. Yes, I hope—yes. I am prepared for AID programs for this to roll out this year. I cannot speak on behalf of the State Department right now. I can come back to you with the specifics when we are ready to roll that out.

Mr. KIRK. Okay. In writing.

Dr. SHAH. In writing.

Mr. KIRK. Yeah, okay. What is your view on sole-source no-bid contracts? Do you have views that square with the President's view?

Dr. SHAH. Absolutely. We have already put into place—

Mr. KIRK. The President's view is that they are no good.

Dr. SHAH. I have already put in place a board for acquisition and assistance review that is looking at a broad range of contracting reform issues at USAID. It is a major part of our agenda going forward. We are looking at large contracts and how to bring those down into smaller chunks. We are looking at doing more local investment in local capacity building in our contracting.

Mr. KIRK. But do you support granting sole-source no-bid contracts?

Dr. SHAH. Well, I would not want to take a tool completely off the table. But no, in general we would much rather compete the

contracts. There are, you know, times when there is either a time pressure or a catastrophic emergency or some unique reason why a modest investment in that frame might make sense, so I would not make a generalization. But in general, no.

Mr. KIRK. So in Haiti, World Vision has \$91 million in projects going, delivered over 5,000 tons of aid. Catholic Relief Service has a current contract for \$61.7 million. It has delivered 5,300 tons of food. CF International, a \$52 million project. ACDI/VOCA, \$37 million, delivered 64 tons. There is a long list of people. And when I checked, they all have years of experience and language capability, and that is that. When the earthquake hit, you decided to override them and give a sole-source no-bid contract to James Lee Witt Associates that has zero French language capability and had never had an AID contract in Haiti before. What was the process by which you decided they were better than all of these experienced partners?

Dr. SHAH. Well, I would not say that we overrode anyone. Let me just describe what the purpose of that contract was. We were asked by the President to coordinate a whole government response and to do that in a manner that connected up very closely and effectively deployed significant military assets that were going into the state.

Mr. KIRK. Did you know James Lee Witt was a registered congressional lobbyist?

Dr. SHAH. What we did was we needed—

Mr. KIRK. That is a yes or no question.

Dr. SHAH. No. I want to help describe why we did the contract because I made the decision and I stand by it. We needed support to understand how to best structure our organization and how to best build our communications capabilities in an environment where we were going to be working with a broad range of agencies, including FEMA, including DHHS, including the DOD. And by the way, in no prior disaster response have we done that. We have not sent disaster and medical assistance teams from HHS in an international setting before. We mobilized and sent FEMA and several of their search and rescue teams. That had not happened previously.

Mr. KIRK. But let us stick with James Lee Witt. Did you know he was a congressional lobbyist?

Dr. SHAH. We ran our process of checks through. We abided by every contracting rule in the process. What I needed was someone and some organization that had significant experience in how to structure these types of broad, whole-of-government, expansive response efforts, that knew how to integrate U.S. response assets and Haitian response assets.

Mr. KIRK. Okay. Third time. Did you know he was a congressional lobbyist. That is a yes or no question.

Dr. SHAH. I ran the checks. I asked that we follow every procedure that we normally follow in accepting a contract.

Mr. KIRK. Okay. Fourth time. Did you know he was a congressional lobbyist. This is a straight question.

Dr. SHAH. Well, I did not ask that question, but I asked that we follow every rule. And I said, if there are any red flags, let me know, and I looked at the process we followed, and we followed our contracting processes.

Mr. KIRK. Did you know that he had no French language background among him—

Dr. SHAH. Well, I was not asking James Lee Witt to go to Haiti. There was a team of people that I had met with, including people who have been working in Haiti for the past 14 months, like Mark Merritt, who were part of that, who were very, very helpful in thinking through how we would structure this. And I relied on their guidance in putting in place a very unique—the Chairwoman asked a very good question about how did we structure the response. We built an Office of the Relief Coordinator that is a unique part of our international response. It allowed for incredibly effective communication with DOD, and it allowed for engaging this other partners.

Mr. KIRK. I am not interested in—

Dr. SHAH. And I used their guidance and their advice to construct that.

Mr. KIRK. And their guidance and advice was to take a registered congressional lobbyist who had no operations, no French language experience, and had never worked with the Office of Foreign Disaster Assistance to get a no-bid contract.

Dr. SHAH. I think that is an unfair characterization. What I asked, I asked a team of people who had significant experience in Haiti, who had significant experience in disaster response, and who knew uniquely how to help me construct an organization that would bring together all of these unique whole-of-government assets, whether it was military or U.S. emergency relief responders into a coherent, coordinated effort. The President asked very clearly for a swift, aggressive, and coordinated response. So we did a lot of things very differently, and we were very worried from the beginning about how we were going to coordinate and bring these things together. They were very helpful in helping to resolve that, and so I stand by that decision.

Mrs. LOWEY. Mr. Kirk, is it not correct that you sent a letter to Mr. Shah, and Mr. Shah—

Mr. KIRK. It is a very bureaucratic, superficial letter that does not describe how he was a congressional lobbyist. I guess I understand now that you did not know that. It does not describe how he had no French language background. It does not describe how he had no experience in any contract.

Dr. SHAH. We did not send James Lee Witt to Haiti. We sent —

Mr. KIRK. You sent him to coordinate Haitian—

Dr. SHAH. No. We sent a team of people to go down and work with us in that early response to set up our coordination structure, and it worked quite well. I mean, I just want to impress on the committee and to share with you that it was a real challenge to figure out how do you coordinate all of these assets going down in an environment where people did not have communications—

Mr. KIRK. So you have already had a lot of bad press on this. What other sole-source contracts do you think you could probably issue?

Dr. SHAH. What other—I do not—

Mr. KIRK. Would you commit to this committee that you will not be doing non-competitive—you know, the President has been very

clear, and his record in Illinois is outstanding, against sole-source non-bid contracts.

Dr. SHAH. Look, I do not want to do any sole-source non-bid contracts. But in an emergency crisis environment, for the purpose that we needed this support, and at the amount that this was, and for the purpose that it met, I stand by that decision.

Mr. KIRK. It sounds like actually a terrible decision on your part. I hope you would, to go forward, because you are very young in this administrative position; you have been embarrassed by this. I would suggest that you might want to think about going with solid partners, experience in the country, language capability, contractors with OFDA, and not using a congressional lobbyist that was not on the ground, did not have a language background, and had no contract experience of OFDA.

Dr. SHAH. Sir, I respect your point of view. I would just say I spoke almost daily with a number of our NGO partners through this process. These partners were on the ground. They had been devastated by this earthquake. They were trying to do their operational work. And they were asking us for support. They were in a position to send a consulting team into our organization to help us understand how to latch up the military, FEMA, a number of other agencies that were prepared to provide unique capabilities to help us commit to the President's response.

Mr. KIRK. Those of us who have been here before, though—we have been on this committee for decades watching OFDA handle this. And so I might reach into the USAID staff itself rather than go with a sole-source contract to a congressional lobbyist that has no language experience or OFDA background.

Dr. SHAH. I appreciate that point of view. This was a very different response than I think most of the other ones.

Mr. KIRK. It does seem very different, very disappointingly different.

Dr. SHAH. I will just look at the numbers. We have treated—those DMAT teams from HHS treated 30,000 people. OFDA does not have the capability to do that. The five additional non-OFDA USAR teams saved more than 100 lives. Left to our own devices, we would not have been able to do that.

Mrs. LOWEY. Mr. Kirk, I think we should move on.

Mr. KIRK. I am just worried, just to close—in other disasters, we have done outstanding work—OFDA is one of the stars of your operation—without sole-sourced contracts to congressional lobbyists.

Mrs. LOWEY. I certainly think, Mr. Kirk, that Dr. Shah could respond to any additional questions you have. In addition, there is specific language in the fiscal year 2010 bill about sole-source contracts. But I frankly, putting aside the unanswered questions—and I am sure you will get back to Mr. Kirk—I want to thank you again for the extraordinary response. I can remember, Mr. Kirk, our discussions with Stuart Bowen. And in Iraq, it took them two and a half years to even get a computer system up and running to even be able to document the kinds of grants they were making. It seemed to me they were taking cash out of pockets and just putting them into the sand.

Mr. KIRK. Oh, you backed me, and this committee banned sole-source contracting in Iraq, a signal that you should have picked up in our view on sole-source contracting.

Mrs. LOWEY. Well, there is some language in the fiscal year 2010 bill, and we can talk again about any amendments that have to be made to it. But I personally want to congratulate you. In a crisis of such enormous proportions, I am sure you were acting with as much help as you can get. And I also think relevant to your point, Mr. Kirk, we have been trying to build up the capacity at USAID. And ideally, there will be a response team that can respond so that you do not have to go outside of USAID. So this can certainly be continued in other discussions, and I want to thank you again.

We have a little time left, and I just want to express, my praise for the way you handled Haiti. I want to express my disappointment that the President's budget does not prioritize expanding access to basic education, and reduces funding for basic education by \$85 million. And the committee has been told this is due to a shift within the Pakistan portfolio.

I have to tell you, this explanation does not work for me. We have clear evidence from every advocate with whom I interact that education is a key pillar in expanding economic opportunity, and increasing gender equality. Without a strong, accountable education system that educates boys and girls, families just will not be able to benefit from these expanded opportunities. Over the past decade, I have worked with USAID to put in place an innovative and groundbreaking basic education program. And frankly, I am really disappointed that this budget does not build on that foundation. And I think wherever this committee has traveled on site to look at the programs, you see the difference in society when girls are getting education and moving on to economic development activity.

So maybe you can tell me briefly why basic education is not one of the key development priorities in the fiscal year 2011 budget?

Dr. SHAH. Thank you, Madam Chairwoman. It is absolutely a priority for us. You know, when you talk about the reduction, it is true that we have shifted resources from the basic education portfolio in Pakistan in an amount that is equivalent to the overall decrease compared to the 2010 estimate, approximately \$75 million, as you note. The remainder of the shift in the strategic approach in Pakistan and elsewhere is largely around higher education and workforce development, but in Pakistan, because we made a big investment last year in basic education, we have been able to launch the largest basic education program we have anywhere around the world.

It is a more than \$200 million program that will work nationwide and prioritize, as you have asked in all of our work, prioritize girls' enrollments. Across the portfolio of work we do, 47 percent of students in schools we support are girls, and I was just in Haiti in Petit Goave where our school was one of the few structures still standing because it had been built to earthquake code and was being used both as a school and a relief supply shelter and where goods were being distributed.

So we, as you know, meet high standards on construction and have a strong track record in certain areas. I also hope that in this

year we will significantly expand our partnership with Education for All and the Fast Track Initiative, that has been an effort that has accelerated the numbers of people in school. And as you have worked with USAID we have been much more focused also on quality and the actual attainment, so we will be rolling out and reinvesting based on some key learnings about how to improve teacher training, how to improve testing and assessments of students as we have done in Kenya and Liberia, and take some of the lessons learned from there and apply them elsewhere.

So our goal is to expand significantly the impact of our work by working with multilateral partners, by working more effectively in our direct programs. And we did not think of this as a reduction or a lack of commitment in any way. We are doing as much as we possibly can in basic education in Pakistan and we are continuing to have the robust commitment overall around the world.

Mrs. LOWEY. Let me just say that the Fiscal Year 2010 budget included a directive to establish communities of learning in order to build on the fact that these serve as community gathering spots. Many of the schools I have visited, you see young girls walking two hours to get there, without having some cereal, any kind of porridge. Wouldn't it be nice if we can encourage the parents to come with them? They could benefit from programs that we had at a community of learning, we could have horticulture, and agriculture programs.

We have had success in our own country with this model. So I am really an advocate of this, and the fact that you are making a change in Pakistan does not make up for not appropriating the amount of money because we need it all over the world. And it seems to me that if we are establishing a new agriculture initiative and expanding basic health initiatives, not to focus on communities of learning, which is a Congressional initiative not original to us, would be a mistake. Could you respond?

Dr. SHAH. Absolutely, I have had the chance to——

Mrs. LOWEY. And if you can tell me what steps USAID has taken to implement this directive.

Dr. SHAH. So, we have taken a number of steps in terms of planning and looking across our programs at certain best practices. I have had the chance myself to visit programs in Ghana and Kenya and Malawi where both USAID and also other partners have done very innovative programs in using schools as platforms for service provision, for learning in a broader way, and for community engagement and support. I think we will try and do a lot more in this area.

I think we can use in particular, and we are already planning to, some of the resources in the Food Security Initiative to do programs that build on the school feeding programs and other things and leverage schools for that purpose as well. So we will absolutely prioritize this and can be much more detailed in a more formal response if you would like.

[The information follows:]

Administrator Rajiv Shah
March 4, 2010

Communities of Learning Directive

Dr. Shah:

We agree that by treating communities holistically and using education as a foundation for development we will help ensure that communities are empowered to create the conditions for development gains across sectors. Support for a “Communities of Learning” approach in which health and development programs, school feeding programs, adult literacy, gender-based violence education and training, community gardens, entrepreneurial training, agricultural extension work and housing programs among others areas will have a multiplier effect on results achieved. Core educational settings such as schools are often uniquely suited to serve as community centers where other development outcomes can be promoted, as seen in USAID’s programs in Yemen, Lebanon and Kenya. Further, for many years, USAID has worked to develop School Management Committees and Community School Boards through programs to implement school improvement plans, targeting the holistic needs of the school and the community. These programs are very promising, as are specific activities supporting information technology and health service delivery toward creating vibrant Communities of Learning. We will continue to work with other U.S. government agencies to coordinate programs with relevance to education. For example, we are collaborating in this area with the Peace Corps, the Department of State’s Office of the Global AIDS Coordinator, the U.S. Department of Agriculture and the Department of Education, particularly in the 5-year pilot focus countries.

Mrs. LOWEY. I would like to pursue this for another minute and then we will have Ms. McCollum ask you another question if you would give us a couple more minutes, Dr. Shah.

Dr. SHAH. Sure.

Mrs. LOWEY. In the past, basic education has been a bilateral program. Now with new leadership and the priority being placed on multilateral engagement, what is the Administration doing to engage the Fast Track Initiative of the World Bank? There are many advocates out there who are enthusiastic about the likely establishment of a global fund for education, based on the Global Fund to Fight AIDS, Tuberculosis, and Malaria. Can you tell us whether the United States is going to take a lead in establishing a multilateral fund? How would U.S. government technical expertise and modern schooling initiatives be integrated into such a global effort?

Dr. SHAH. Well, I can tell you that we will take the lead in organizing the international community and the multilateral work so that we work effectively with it. I met on Friday with President Zoellick of the World Bank. We talked about, amongst other things, education and opportunities to partner better. As you know, USAID has unique expertise in areas like teacher training, in student assessments through some verbal assessment methodologies that have been piloted in Kenya and Liberia and elsewhere. And we think we can help the international system which has been very focused on getting the numbers, appropriately focused, on getting the numbers up, also do a better job on quality and educational attainment and assessments, and thinking about using schools as a broader platform for service provisions.

So there is a natural partnership there, we are in that discussion. Right now we have a member of our team who serves as the observer on the board of EFA and FTI. I personally would like to see a far deeper engagement. I think that is an okay first step, but we are going to have resources to put on the table to do things differently. In education we want to leverage the great work that has happened in the multilateral system, and we want more than an observer status on the various opportunities to engage.

Mrs. LOWEY. Well, it sounds great. And another great fan of engagement and a Member of this Committee who has been very much involved in depth with the World Bank, Ms. McCollum.

Ms. MCCOLLUM. Thank you, Madam Chair, and I could not agree with you more. And I think I am going to ask about some other indicators, but before I do that, I have to agree with you, we have ambassadors in our office and we are doing great work and you have been outspoken on education and the opportunities to do school feeding at education as we ramp up our food nutrition, that is a great intersection that you just described. I do not have the ambassadors coming in asking for that very often, so I think we had better start asking them so they know it is important.

So to kind of tag onto that, I would like to learn more about how USAID defines country ownership and how you plan to increase country ownership in our foreign assistance programs. I believe it is necessary to have a transformation of recipient governments into partner countries, and the only way to sustain development is to

invest in citizens and governments developing into their own future.

And I know it is tough work, but I talked earlier about the importance of saving the lives of children and mothers, and this horrible reality is that we cannot want kids and moms in poor countries to live more than their own government leaders. They have to want it just as all of us on this Committee want it, just as much as all the USAID workers that you have on the ground trying to make it happen. And as I was pointing out to the Chairwoman, I see my fair number of ambassadors, I know you see more, Madam Chair, but I have never had an ambassador come into my office and ask for more funding to save the children and the mothers in their own countries.

Mrs. LOWEY. Well I have.

Ms. MCCOLLUM. I have not.

Mrs. LOWEY. In Pakistan, because they knew of my interest, and the first thing they said is, I am for education and here is my education minister.

Ms. MCCOLLUM. Well, then we need to hold their feet to the fire. So how do we help USAID hold their feet to the fire on that? How can we change our policies, working with the Chairwoman and I, to approach and get more country commitments to development, not just words but action? And then how can we put together a plan to hold these countries accountable and for maintaining these commitments? So could you explain to us, as Chairman Lowey and I are talking to, you know, ambassadors and foreign ministers and health ministers and education ministers, that we are going to hold them accountable and if they want to have a partnership we expect to have a real partner?

Dr. SHAH. Well, I appreciate that comment and question. At the end of the day we believe that country ownership takes a number of different forms. First and foremost is, as you point out, commitment, which can be measured in financial terms, we can observe political commitment at the highest levels, and we can insist on that level of commitment both in terms of the senior political commitment and in terms of real financial commitments.

We are doing that in the Food Security Initiative where we are asking participating countries to go through a process where they develop an effective agricultural development plan, it is signed off by the President of the country so it has the visibility and authority that we need in order for that to be successful, and it requires that countries significantly increase their spending in agriculture. Average spending in terms of public budget percentages are 5.5 percent. We want countries to meet their broad commitments to get to 10 percent or 15 percent as part of the process of securing additional funding from the United States, and that is mutual accountability and commitment in its most sort of rigorous form financially.

We also work with countries to improve the planning capabilities and implementation capabilities. In Afghanistan, for example, we have been assessing the capabilities of the Ministry of Agriculture and Livestock and working with other partners, we are really building greater capacities there both for planning and for financial management and procurement to allow us to work more directly to-

gether. That worked in the health sector in that context and we are using it in other environments.

And finally it involves changing the way we work, because if we go through those processes and then do all of our work in parallel contracting systems that do not have the same connectivity to the country leadership or the country planning, we will not be credible long term partners. And so to live up to the aspiration to do our work in partnership and not patronage, we will look at our contracts and we will look at our programs and we want to implement those things differently. And it speaks to our efforts at procurement reform; it will speak to our efforts to do multi-year planning and budgeting, which is very much a priority in the QDDR, and our efforts to build civil society interests around the core priorities as expressed by countries.

So this is an area where if we are going to rebuild and if this agency is going to be the world's premier agency in development, we have to go beyond signing the Paris Declaration and saying we are going to work in partnership. We actually have to change the guts of our operating system to do that. And we have a number of processes already in place to do that, and before the end of June I hope to roll out a new contracting set of guidances that will help us be better and more serious and more accountable long term partners with countries that do stand up. So that is what we are working on.

Ms. MCCOLLUM. Madam Chair, it sounds like you and I can look to making some of those quality measurements, not only for USAID and for the other people that we work with that go into country to help but with our country partners as well. And maybe we start by asking them their education budgets and having them show what they have been over the past couple years and what they are going to be over the next couple years, the same with their maternal child health budgets too, I know the World Bank does that but maybe we ought to start doing that a little more ourselves. Thank you, Madam Chair. Thank you, sir.

Mrs. LOWEY. Well thank you. And I want to thank you, Administrator Shah. You have breathed fresh hope and life and enthusiasm into your position, and I really want to thank you for your time. This concludes today's hearing on the President's Fiscal Year 2011 request for the U.S. Agency for International Development. The Subcommittee on State Foreign Operations and Related Programs stands adjourned.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairwoman Nita M. Lowey (#1)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

USAID Staffing

Question:

What efforts are in place to evaluate the current technical expertise across the agency and ensure that the new FY2011 hires are addressing any gaps in critical technical areas?

Answer:

USAID is working to ensure that all new hires are addressing gaps in critical technical areas in several ways. First, USAID has developed a Consolidated Workforce Planning Model (CWPM) that is based on both agency experience and workforce analysis to determine the number of core technical, management and administrative staff (backstops) required to carry out programs in each of USAID's Washington and overseas offices according to strategic importance. This establishes a base staffing level. To this base level we add additional technical staff according to projected program funding levels, workload analyses, and assessments by subject matter experts (SMEs) on the staff needed to effectively implement high priority programs and Presidential initiatives. The model's output provides USAID's overall demand for each critical technical area.

Next, the Office of Human Resources completes a gap analysis comparing current on-board staffing levels and attrition to the workforce planning model's output. After reviewing with SMEs, the gap analysis indicates appropriate hiring levels in each technical or backstop area.

In addition to the assessment of total staffing needs, the Office of Human Resources is implementing a competency management system. This system gives USAID a structured tool through which key competencies are identified for each backstop area, and gaps in competencies are measured. USAID is investing in competency management to improve recruitment, hiring, career development, and strategic organizational planning. These steps ensure that we not only have the right number of technical staff, but that they have the right skill sets.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#2)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Question #2:

It is my understanding that many of the individuals hired through the DLJ are junior officers. This makes robust training and mentoring an even greater priority to ensure the success of the initiative. What efforts are being made to guarantee that new hires receive the necessary training and supervision as they prepare for country deployment?

Answer:

The Development Leadership Initiative (DLI) program requires Foreign Service Officers (FSO) who are hired under this initiative to complete an Individual Development Plan (IDP). The IDP is developed by each DLI together with their supervisor, coach and backstop coordinator. The IDP outlines how DLI's will gain the knowledge, skills and experience through:

1. Rotations through Bureaus and Offices/On-the-Job Training (in Washington and in Field Missions);
2. Formal classroom instruction, including technical courses;
3. Required on-line Training for core knowledge courses; and,
4. Language training.

Core training includes over 15 required courses covering all aspects of the delivery of Foreign Assistance. In addition, there are many recommended courses that expand the junior officer's (JO) understanding of life in the Foreign

Service. There is also informal training, coaching and mentoring available to DLI's. Additionally, DLI's undertake formal training courses in their fields of expertise.

Each new DLI officer is assigned a supervisor during their orientation period in Washington. Long-term Individual Development Plans are developed by the DLI in conjunction with their supervisors and mentors. Additionally, supervisors are identified for the officer's field assignment. Each technical backstop coordinator ensures that the DLIs receive the appropriate levels of formal and informal training in their technical specialty. They are also charged with helping the DLI design a professional development program which takes into account any changes that are anticipated as backstop priorities change.

Following formal orientation and preparatory training (including language) in Washington, new officers enter a two year period of on-the-job training. This training includes exposure to USAID policies, projects and programs, State Department operations and technical classroom training in field missions. The DLI's first county assignment is a directed assignment. It takes into account the availability of supervisors with appropriate technical and supervisory skills to oversee DLIs in their technical areas. The overall training program provides DLI's with all the necessary tools to become a well rounded career USAID Foreign Service Officer.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#3)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Question #3:

One of the goals of this initiative was to provide the necessary personnel to move USAID from a “contracting agency” into an implementing agency. USAID will always work with NGOs in the field, but it is our expectation that smaller grants and contracts will become the norm and USAID will move away from \$500 million contracts. Unfortunately, we still see large contracts being advertised by USAID. Just last week, staff found a \$700 million five year multi-country contract being advertised. What is being done to ensure that new staff is in countries where assistance is most needed?

Answer:

USAID is working to ensure that new staff are deployed to countries where assistance is most needed. Our Consolidated Workforce Planning Model (CWPM), based on agency experience and workforce analysis, determines the number of technical, management and administrative staff required to lead and manage U.S. development assistance programming. Assignments are based on a country’s development needs, specific program requirements, and strategic importance. The model’s output identifies the level of demand for each critical technical, management and administrative area. The parameters for technical and core staff are mission/office specific and the allocations generated by the model incorporate USAID’s changing business model. This includes the workload that will be generated by our mandate to work directly with many more partners, offer small contracts and grants, as well as engage more actively with host government entities. While our contractors and grantees will continue to be critical to our

foreign assistance programs, our model projects the re-establishment of an internal capacity to design, manage, and evaluate programs.. There will be a lag from recruitment of DLI to their deployment to ensure that DLIs benefit from specific technical and core training requirements. Once deployed, DLIs will be able to effectively design and manage development project, and effectively engage with counterparts.

The Foreign Service positions projected by the model are reviewed and validated by the regional bureaus. Once validated, they are prioritized by USAID Senior management according to the strategic priorities of the Agency. Those Foreign Service positions are subsequently included in the staffing pattern along with the expected date of assignments for selected candidates.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita Lowey (#4)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Contracts and Grants

Question:

What is being done to reorient USAID from large grants and contracts to more strategic, smaller grants and contracts?

Answer:

USAID is committed to reducing large procurements to more strategic and smaller contracts and grants. This change in our business model requires a larger, trained workforce, and will significantly increase workloads, in Washington and abroad. As the Agency rebuilds its workforce, we are taking immediate and long-term steps to strategically:

- expand and diversify our partner base through enhanced competition to include small, disadvantaged, women- and veteran-owned businesses and in-country, non-government partners;
- provide better oversight on our awards to ensure that the U.S. government achieves its desired results; and
- utilize all appropriate development tools to provide real solutions to manage worldwide development issues.

In the long-term, our plan to increase staffing levels by 2012, a goal greatly supported by you and this committee, will help us to engage experienced and trained USAID employees in activity design, agreement negotiation, and oversight of our

awards. We will be bringing aboard junior- and mid-level staff to enhance our technical expertise and to strengthen the integrity of our contracting and oversight processes. As we increase our staff numbers with trained individuals, USAID will issue fewer large procurements.

In the short term, we are taking immediate steps to reduce larger awards and move toward more targeted, smaller procurements. In February 2010, I established the Board for Acquisition and Assistance Reform (BAAR). I asked this board to review and restructure large procurement actions to improve competition and increase small, disadvantaged, and women-owned business participation. Through direct interaction with Bureaus and Missions, the BAAR is in the process of refocusing and restructuring several large procurements, helping us to change the way we conduct our business.

Finally, based on a number of our ongoing internal reviews, I plan to announce additional procurement reform goals in the near future. Moreover, we are actively involved in the Quadrennial Diplomacy and Development Review (QDDR), which is also addressing procurement reform issues at this time.

These activities are helping USAID to reposition its path as we bring aboard our new recruits through the Development Leadership Initiative and rebuild USAID to become a world leader in development assistance. I thank the committee for its support as we move forward in these efforts.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairwoman Nita M. Lowey (#5)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

New Employee Office Space

Question:

USAID is working with the State Department to implement a construction and rehabilitation plan to ensure that new employees have office space. Are you satisfied with the pace of implementation of this plan?

Answer:

USAID is generally satisfied with the pace of the Joint State-USAID Overseas Long Range Building Plan's implementation. USAID and State Department's Bureau of Overseas Buildings Operations (OBO) have been diligent in ensuring that construction keeps at pace with the plan. We meet at least monthly to review progress and to identify/resolve issues that may arise. Unforeseen circumstances can result in delays. In these instances we take immediate steps to mitigate the impact. We continue to work with the State Department's Office of Rightsizing to obtain timely and flexible response to rightsizing review requests which are a prerequisite for construction. This is critical to enable USAID's staff expansion.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairwoman Nita M. Lowey (#6)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

New Employee Office Space

Question:

Will these facilities be completed prior to the deployment of the new officers?

Answer:

New officers hired during 2008-2009 were deployed to locations where space already existed or was readily available. The infrastructure plan (and budget) calls for the bulk of construction to be initiated in FY2010 for completion by FY2012-13. Where construction will not be completed prior to the arrival of new officers, USAID/Overseas Management Staff and Department of State's Bureau of Overseas Buildings Operations (OBO) are taking steps to ensure adequate interim facilities are provided. We are also in the process of reconfiguring existing space to accommodate new staff. Additionally, where security issues will permit, interim space is being leased. However, this can be problematic in that it requires a co-location waiver, typically requiring 3-6 months for approval. To further mitigate space constraints, USAID is expanding its use of regional centers (i.e., Bangkok, Pretoria, Cairo); using interim "Rapid Deployment Facilities" (prefabricated, secure, modular office and housing units; i.e., Beirut, Santo Domingo); and implementing remote access or shared workspace in other locations. Finally, we are evaluating the feasibility of imbedding USAID staff in host government offices/ministries.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita Lowey (#7)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Yemen

Question:

The terrorist attempt on Christmas Day highlights the challenges emanating from Yemen and is a further reminder of threats that emerge when ungoverned or poorly governed regions are exploited by terrorists.

How does our assistance program strengthen security and counter terrorism in Yemen?

Answer:

USAID's new country strategy will focus on stabilization through targeted interventions in highly vulnerable areas. Programs will work with local leaders to identify the unique drivers of instability in each community, and develop and test solutions tailored to each problem. The goal will be to improve the quality of life for Yemenis and reduce the likelihood they will be recruited by groups such as Al Qaeda in the Arabian Peninsula (AQAP) that promote extremist ideology

USAID's strategy will be implemented through two flagship programs: improving community livelihoods and strengthening national governance. Community livelihoods will improve the delivery of basic services, including health and education, expansion of access to water supplies and building basic infrastructure. It will also increase economic opportunities, particularly in agriculture, by helping farmers grow crops that are alternatives to qat (a tree from which the leaves are chewed as a stimulant). In promoting responsive governance, USAID's program will help to increase transparency and decrease corruption. It will decentralize planning, budgeting and service delivery and enhance civil society's ability to influence policy implementation. In both the community

livelihoods and the governance programs, USAID will focus on assessing the impact of program activities on stabilization.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita Lowey (#8)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Yemen

Question:

President Saleh has ruled for over thirty years in Yemen and there are concerns of corruption and the government's inability to provide basic services to its citizens. How will the Administration ensure that assistance to Yemen is used effectively and efficiently?

Answer:

The allegations of corruption and the government's inability to provide basic services are among the drivers of instability in Yemen identified in USAID's new strategy. Our new programs will identify drivers of instability in key areas and then adapt USAID interventions to address those drivers. Programs to improve community livelihoods and strengthen national governance are designed to allow enough flexibility to tailor activities in order to address causes of instability.

USAID does not provide funds directly to or through the Government of Yemen or its institutions. USAID implements programs through grantees and contractors that have a presence in the capital, Sana'a, as well as in governorates where USAID programs operate.

With the new stabilization strategy, USAID is instituting a monitoring and evaluation system that will provide an independent reporting source on implementing partner activities and our programs. Information will be fed back to USAID allowing us to more effectively track and manage programs.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita Lowey (#9)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Yemen

Question:

The budget request includes a total of \$106.6 million for Yemen, an increase of \$39 million over 2010. What areas will our assistance focus on? How specifically will this assistance build Yemen's ability to combat terrorism?

Answer:

Of the total Fiscal Year 2011 request of \$106.6 million, \$52 million is requested for bilateral stabilization programs through USAID. Of the \$52 million, \$31.5 million will be for the community livelihoods program and \$17.4 million will be for the strengthening national governance program. \$3.1 million will be for monitoring and evaluation of USAID's programs.

USAID programs will work to stabilize neglected areas by reducing local grievances and improving the quality of life for Yemenis. The intent is to reduce the appeal of extremist and other disaffected groups that intend to undermine the Republic of Yemen Government and harm the United States.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairwoman Nita M. Lowey (#10)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Haiti Reconstruction Assistance

Question :

How will the U.S. Government ensure that reconstruction assistance is implemented in ways that will have a long-standing impact and a sustained benefit to the Haitian people?

Answer:

Rebuilding after the worst natural disaster recorded in the Western Hemisphere is a monumental task, but together with the people of Haiti and the international community, we are working to build a stronger and more stable Haiti. Our vision for Haiti encompasses not just the next few years, but also the next few decades. It is essential that our efforts build the capacity of local and national government agencies and that they focus on long-term sustainability.

The United States is approaching the task of reconstruction and development in Haiti through a whole-of-government approach that leverages our resources strategically in ways that can have the greatest impact. We are coordinating closely with other bilateral and multilateral donors, as well as with NGOs and the private sector. The U.S. government will make strategic investments in areas and sectors where it can materially and systemically add value and generate results, with the core objective of assisting Haiti in building its own institutions and capacity.

Building on lessons learned from previous disasters about the importance of stimulating innovation and mitigating aid dependency, as we transition to reconstruction

we will support the Haitian government's plan to strengthen urban centers outside Port-au-Prince that will create jobs, strengthen the economy, and provide an incentive for people to begin rebuilding their lives.

As we move forward into the reconstruction phase, the long-term vision of success is that Haiti becomes a more stable nation that contributes to regional and hemispheric stability and security and is characterized by sustained democratic governance, reduced vulnerability to natural disaster, and new economically vibrant metropolitan centers.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairwoman Nita M. Lowey (#11)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Haiti Reconstruction

Question:

How will the Administration balance the need to begin reconstruction quickly versus ensuring funds are programmed according to a comprehensive plan based upon a careful needs assessment?

Answer:

As we enter the recovery phase, the most immediate priority continues to be to save lives and protect vulnerable populations. Our recovery activities will continue to provide shelter, health services, food aid, water and sanitation, and jobs to those who were affected by the earthquake.

In the longer term, our focus will be on stabilization and economic growth. The government of Haiti has begun to articulate priority needs, and we support its plan to strengthen urban centers outside Port-au-Prince that will create jobs and diversify the economy. U.S. government efforts are being informed by the Post Disaster Needs Assessment which was recently completed by Haiti with international cooperation. Sector experts from the United States are also conducting their own assessments and using assessment data provided by the United Nations Cluster Leads as they form their longer-term plans.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairwoman Nita M. Lowey (#12)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Haiti Supplemental

Question:

When do you expect the Administration to send a supplemental request for development and reconstruction to Congress?

Answer:

The supplemental request was submitted to Congress by President Obama on March 24, 2010.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita Lowey (#13)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Cutting NGO Programs in Haiti

Although it is not official USAID policy, we hear from NGOs that work in other regions of the world that they are being told to cut their humanitarian programs by as much as 40% due to the tragedy in Haiti.

Question:

What efforts have been undertaken to ensure that humanitarian program in other parts of the world continue?

Answer:

No USAID NGO partner was told to cut their programs by 40%. USAID has resources to respond to disasters and emergencies of a traditional magnitude.

USAID reduced regional team budgets to support Haiti. The result of this reduction was that some activities were partially funded now with the remaining balance to be funded upon receipt of the supplemental; other programs were entirely delayed until the beginning of the fourth quarter assuming the supplemental will be received in a timely manner; and finally the disaster risk reduction and preparedness and mitigation programs that were to be new startups this year have been eliminated. OFDA will certainly look closely at those activities for 2011 funding. If no additional funds are available, or if supplemental funding is not available until late in the fiscal year, programs will be reduced with some having to wait for 2011 resources.

Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita Lowey (#14)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010

Adequate Resources to Respond to Disasters

Question:

Do you expect the supplemental to sufficiently replenish the disaster assistance accounts to ensure that we have adequate resources to address crises in other parts of the world?

Answer:

No USAID NGO partner was told to cut their programs by 40%. USAID has resources to respond to disasters and emergencies of a traditional magnitude.

I expect that the requested supplemental if it arrives in June will adequately replenish our disaster assistance accounts and that there will be sufficient resources to addresses all other crises worldwide.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairwoman Nita M. Lowey (#15)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Shelter

Question:

Shelter continues to be a challenge in Haiti. USAID reports that they are providing tarps and building materials so that those displaced can build temporary homes. Please provide an update on the current efforts related to shelter. What more will be done prior to the hurricane season?

Answer:

The U.S. Agency for International Development's (USAID) immediate priority for the shelter sector in Haiti is to ensure that families affected by the earthquake have emergency shelter in flood-safe areas prior to the hurricane season beginning on June 1, 2010. The USG hopes to provide every household in need (an estimated 260,000 households) some form of *emergency shelter* assistance by May 1, 2010. Additionally, funded shelter programs will assist an estimated 25,000 households with *transitional shelter* by June 1, and 120,000 households before the end of the year.

USAID's longer-term shelter program in Haiti is designed to: a) move Haitian families back into houses that are still standing and are deemed safe for occupancy by habitability assessments; and b) enable families to repair existing homes or construct new homes where they have adequate access to key services, such as water and sanitation, electricity, roads, schools, and health care. The United Nations Office of Project Services (UNOPS) is conducting habitability assessments in Haiti, with support from USAID and

DOD. Approximately 46% of the 22,824 houses assessed have been deemed safe for occupancy. USAID-provided shelter material, toolkits, and training are also enabling households to repair existing structures and develop more permanent housing structures.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#16)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Gender Integration - Women and Girls

Question:

Under your leadership, the State Department and USAID have embraced decades of research that demonstrates programs addressing the needs of women and girls dramatically enhance program effectiveness. You and I share this commitment and I am pleased by the renewed focus on programs under the Department and USAID's purview.

Plans for implementation of the Global Health and the Food Security initiatives state that they will have a focus on women and girls. Can you share how this focus will be operationalized?

Answer:

As the Agency and other USG partners continue to strengthen and refine plans for the Global Hunger and Food Security Initiative ("Feed the Future" or FTF), one component that has remained constant throughout each iteration is the need for gender equality and expanded opportunity for women and girls in addressing and meeting household, community and national food security needs. This priority is captured in various FTF investments, including: Improved Economic Performance of the Agricultural Sector, Inclusive Economic Growth and Improved Nutritional Status.

A number of principles will help guide implementation of the Initiative:

- 1) ensuring women producers have equal access to assets, inputs and technology;
- 2) prioritizing labor-saving technologies that benefit women and girls in the home, and in the agricultural arena as producers, transformers and marketers of agricultural goods;
- 3) expanding the involvement and participation of women in decision-making at all levels

and in all institutions, so that they may help lead the formulation of policy, investments, program design and implementation; 4) organizing female farmers to develop and leverage associations and user groups that advocate and address their needs and concerns; 5) improving access to financial services for women throughout all levels of agribusiness, and placing them in leadership roles to facilitate this; and 6) helping women move beyond production by opening up opportunities to engage in the investment-oriented and transformational sides of value chain production.

The USG will consult and work with focus countries and development partners – using existing and proven gender analysis frameworks and methodologies – to establish solid and illustrative indicators that guide gender integration and women’s empowerment in each investment area. USAID has been actively engaged in this to date, using findings from previously funded initiatives, such as the Initiative to End Hunger in Africa, to assess missed opportunities and best practices for including women in agricultural production activities that address comprehensive food security concerns.

Nutrition is at the nexus of FTF and the Global Health Initiative (GHI). Investing in girls’ nutrition can advance the status of women and increase their ability to better care for their families. When assets and income are in the hands of women, evidence shows that agricultural productivity increases, poverty is reduced, and nutrition is improved. Women’s education and status in the household is directly correlated to better nutrition outcomes for children. Analyses show that strengthening women’s control over agricultural production can increase agricultural output by an average of 10 percent, and that equalizing gender status in South Asia and Africa would reduce the number of underweight children by at least 15 million (Alderman 2003). As a fundamental part of

both initiatives, USAID's nutrition strategy seeks to empower women and girls to maximize outcomes in both agriculture and health.

Taking a woman- and girl-centered approach is a key principle of the GHI. Gender considerations have always had direct and substantial effects on our health programming. For example, HIV/AIDS affects more women than men in sub-Saharan Africa, malaria in pregnancy is particularly dangerous for women and their unborn children, and family planning and maternal health clearly affect women very directly. Under the GHI, we will examine gender relations as they play out in all aspects of our health programs. We will undertake gender assessments to identify the factors that affect health status and access to health care. We will then design program interventions that address these factors in a positive manner and help redress gender imbalances. We will contribute to training female health workers and building the capacity for women to engage in health at all levels – not just as clients, but as decision-makers in the design and implementation of health programs and in monitoring quality of care. Further, we will improve monitoring and evaluation so we know what works to improve the health of women and girls, and how to scale it up.

USAID – along with other USG partners, including the Office of the U.S. Global AIDS Coordinator, Centers for Disease Control and Prevention, and the Office of Global Women's Issues at the State Department – is committed to creating an environment where women and girls can reach the highest attainable standards of health. USAID is working closely with these USG partners to lay out the foundation for implementation of the GHI woman- and girl-centered approach. GHI will support improved access to

quality health services for women and girls and address the underlying gender-related vulnerabilities that compromise their health.

The GHI will support long-term systemic changes to remove barriers and increase access to quality health services, for example, by improving monitoring and evaluation of the health of women, adolescents and young girls; supporting integrated health services; involving men and boys in addressing gender equity; improving training of health providers on gender issues; ensuring meaningful participation of women and girls in decision-making; and engaging civil society in partner countries to address gender equity in health care.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#17)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Gender Integration - Staffing

Question:

Gender integration activities were severely under-resourced in the past. How are the State Department and USAID staffing up in order to ensure that programs with gender considerations are implemented in the most effective way? What benchmarks will you use to ensure progress is being made?

Answer:

USAID recognizes that development outcomes are largely dependent on the degree to which women and girls are empowered to realize their full potential and to benefit from and contribute to their society's progress. USAID believes that gender integration must be the responsibility of all staff, not only those specifically focused on gender issues. With the generous support of Congress, USAID has hired 427 staff thus far under the Development Leadership Initiative (DLI). USAID has instituted mandatory training on gender for all incoming staff under the DLI. Additionally, training for USAID staff from missions on gender-based violence and trafficking in persons was held in Washington in February 2010, and there are plans to offer it on a regional basis.

In order to ensure that programs with gender considerations are implemented effectively and systematically, USAID has strengthened its directives requiring that gender issues be taken into consideration at all stages of the programming process, from strategy development through procurement solicitations. In conjunction with this policy,

a Help Document has been developed to provide staff in Washington and the field missions with guidance on how best to integrate gender into all their programming.

In order to ensure that gender is integrated sectorally throughout our programs, a methodology and system to track the integration of gender into USAID planning and programming progress has been developed and a baseline was established in 2007. We have used this analysis to reprogram resources to better integrate gender by region and sector. In addition, USAID also tracks impact of our programs through gender disaggregated indicators worldwide. This system for measuring gender integration ranks the thoroughness of the inclusion in strategies and procurement solicitations by sector and region. USAID will continue to track progress in gender integration in the future through use of this methodology.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairwoman Nita M. Lowey (#18)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Addressing Needs of Women and Girls

Question:

Under your leadership, the State Department and USAID have embraced decades of research that demonstrates programs addressing the needs of women and girls dramatically enhance program effectiveness. You and I share this commitment and I am pleased by the renewed focus on programs under the Department and USAID's purview.

Finally, implementing this gender focus will be difficult in the front line states of Pakistan, Afghanistan and Iraq. What steps is the Department taking to incorporate this focus into the new Afghanistan and Pakistan Regional Stabilization Strategy?

Answer:

In his State of the Union Address and subsequent remarks, President Obama declared that U.S. Government policy in Afghanistan and Pakistan reflects our national values, including support for universally-recognized human rights. Our civilian strategy in Afghanistan incorporates the values of inclusive human rights, good governance, and rule of law. Women's empowerment in Afghanistan and their full and equal participation in their society are fundamental prerequisites for achieving this strategy.

On January 28th, leaders from around the world gathered in London to discuss Afghanistan's future. Secretary Clinton underscored the importance of women in Afghanistan's development, and unveiled the Women's Action Plan, which is incorporated into our U.S. Afghanistan and Pakistan Regional Stabilization Strategy. As stated by Secretary Clinton, "the plan includes initiatives focused on women's security, women's leadership in the public and private sector; women's access to judicial

institutions, education, and health services; women's ability to take advantage of economic opportunities, especially in the agricultural sector. This is a comprehensive, forward-looking agenda."

The Afghanistan-Pakistan Stabilization Strategy dated from late February 2010, recognizes women as agents of change and underscores their importance to our civilian stabilization plan and our efforts to strengthen Afghan and Pakistani communities' capacity to withstand the threat posed by extremism. It establishes women's empowerment as critical to unleashing the full economic potential of the Afghan and Pakistani people. The Strategy integrates women into our key programming initiatives, which focus on women's security, women's leadership in the public and private sector, women's access to judicial institutions, education, and health services, and women's ability to take advantage of economic opportunities, especially in the agricultural sector.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#19)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Women in Iraq

Question:

How are we leveraging the skills and abilities of women in Iraq as that country looks to peace and stability?

Answer:

USAID/Iraq integrates support to women into nearly all of our program activities. Women play a critical role in stabilizing Iraqi families and provide significant potential in revitalizing civil and economic institutions within the country. With the help of USAID's capacity building activities, Iraqi women have strengthened their political voice and continue to improve their economic status. USAID partners have worked with female politicians and grassroots organizations throughout the country to advocate women's interests as central to achieving peace and stability. USAID programs support women entrepreneurs, business leaders, and professionals to ensure that they benefit from increased economic growth and increased capacity building.

USAID's Community Action Program (CAP) also supports initiatives that address the immediate needs of Iraqi women. The CAP program is a consortium of U.S. Private Voluntary Organizations (PVOs) that helps neighborhood councils and community groups to first identify and prioritize local needs, and then to develop and implement projects that address those needs by matching the USAID contribution. Since June 2003, approximately half of the beneficiaries have been women, with an estimated

500 projects directly benefiting women and another one-third of projects indirectly benefiting women. The Marla Ruzicka Iraqi War Victims Fund, which is implemented through CAP, provides supplies and training to widows and families who have lost their primary source of financial support in Coalition or joint Coalition-Iraqi military operations. USAID's *Tatweer* National Capacity Development Program has trained over 11,000 female Iraqi civil servants in a variety of public administration skills, and the *Tijara* Private Sector Development program has provided a combined \$31 million in micro-loans to approximately 16,500 women. USAID's *Inma* Agribusiness program conducts training activities specifically for women throughout Iraq and its activities in agri-business lending has facilitated and generated employment for women in micro-enterprises. USAID activities leverage Iraqi womens' potential by providing them skills and resources that allow them to take advantage of opportunities to influence the Iraqi economy and governing institutions and contribute to long term stability.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairwoman Nita M. Lowey (#20)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Climate Change

Question:

Can you explain how the FY 2011 budget request puts us on the path to fulfill these commitments?

Answer:

The FY 2011 Budget request is consistent with our commitments in Copenhagen. The Administration's FY 2011 request of \$1.4 billion in State, USAID, and Treasury funding for "direct" climate change assistance (i.e. assistance that is part of the initiative and specifically focused on climate change outcomes) contributes to the U.S. share of the 2010-2012 commitment.

The U.S. contribution to the \$30 billion collective commitment will be through a mix of direct assistance programming through USAID and the State Department and programming (through both Treasury and State Department mechanisms) to multilateral funds such as the Climate Investment Funds, Forest Carbon Partnership Facility, Least Developed Countries Fund, and Special Climate Change Fund.

We are also on track to contribute \$1 billion for reduced emissions from deforestation and forest degradation activities for 2010-2012, which is a subset of our larger commitment. The FY 2010 appropriation included \$233 million in the sustainable landscapes pillar for forest-related climate change funding for State, USAID, and Treasury. This includes a "core" allocation of \$153 million, of which \$78 million is

USAID biodiversity funding that also has climate benefits. The FY 2011 request for State, USAID, and Treasury includes \$347 million for sustainable landscapes, including a \$23 million increase for USAID sustainable landscapes activities targeted at Copenhagen commitments.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairwoman Nita M. Lowey (#21)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

World Bank Climate Fund

Question:

What engagement will USAID have in the establishment and implementation of the World Bank climate funds?

Answer:

USAID is not contributing directly to the World Bank climate funds; those contributions are made through Treasury and State Department mechanisms. USAID does provide input, however, into the USG position on these funds.

USAID's climate change programs have been designed to complement USG investments in multilateral fora. Our sustainable landscapes programs, for example, complement the activities of the World Bank Forest Carbon Partnership Facility and the World Bank Forest Investment Program. USAID bilateral programs often work in key political and governance areas that multilateral agencies cannot. USAID provides on-the-ground presence and relationships with host country governments that facilitate the effective implementation of climate change programs supported by multilateral institutions and other donors.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairwoman Nita M. Lowey (#22)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

World Bank

Question:

Will USAID be included on the U.S. delegation to Board meetings and will you engage in evaluating programs?

Answer:

USAID and State share the U.S. Government seat on the Participants' Committee of the World Bank Forest Carbon Partnership Facility. Fourteen donor countries and fourteen partner countries serve on the Participants' Committee. While the World Bank is the trustee of the funds, and acts as the secretariat, the Participants' Committee makes all funding decisions.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairwoman Nita M. Lowey (#23)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Climate Change

Question:

Please explain how the various initiatives within the climate change portfolio were determined.

Answer:

In the FY 2011 Budget, allocation of funding between the three pillars was determined based on near-term needs and priorities. In future years, the proposed allocation of international public finance between these pillars will be adjusted as needs and opportunities change.

In the near term, clean energy requires significant public finance, and therefore receives about half of the USG climate change budget. This is because there are presently more achievable and cost-effective opportunities for clean energy deployment than there are for investment in adaptation and sustainable landscapes; additionally, carbon markets have not yet developed into a major source of clean energy financing. The other half of the FY 2011 budget for climate change is split approximately equally between the sustainable landscapes and adaptation pillars.

Over time, the distribution between these categories may shift as private finance mobilizes to support clean energy and sustainable landscapes, and adaptation needs increasingly require public support.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairwoman Nita M. Lowey (#24)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Climate Change

Question:

What additional resources do you believe are needed for adaptation and should the U.S. government prioritize this area further?

Answer:

Climate change adaptation must be a high priority in development assistance.

Climate change threatens to exacerbate existing development challenges, and its impacts are already visible in a number of developing countries. Many developing country economies rely heavily on sectors like agriculture, fishing, and tourism, which are particularly vulnerable to climate change. Climate change also requires an adjustment of development practices, to avoid adverse climate impacts on project outcomes. Through adaptation programming, USAID can increase the resilience of countries, communities, and ecosystems to climate threats, and preserve development gains in democracy, food security, health, economic growth and natural resource management. For these reasons, adaptation is a critical component of USAID's climate change program, and is being integrated into programs in other sectors. FY 2011 funding for adaptation will build on the significant new funding for adaptation in the enacted FY 2010 budget.

The United Nations Framework Convention on Climate Change (UNFCCC) secretariat, the World Bank, and Oxfam have all estimated that several decades from now the investment and financial flows needed for adaptation are likely to be tens of billions of dollars per year. A number of studies also suggest that every dollar spent in

prevention, such as disaster risk reduction, weatherization or planning for a changing climate, saves several times its value in humanitarian assistance, operating costs and lifetime extension. The sooner we act, the more opportunities we will have to pursue cost-effective interventions and avert severe damages.

The FY 2011 adaptation assistance request recognizes this urgency, as well as the constraints in the current budget environment. It proposes targeted programming to provide immediate assistance to the most vulnerable countries-- particularly the least developed countries, small island developing states, and African countries. It will target vulnerabilities in those countries, especially those that relate to priority needs such as shelter, food, water, and livelihoods. USAID will design climate change adaptation approaches to address the specific needs of women and men in local communities, to preserve development gains and avoid economic losses.

Adaptation funding will also be used strategically to support investments in science and analysis for decisionmaking, and tools and platforms that can be used in multiple countries around the world. For example, USAID programs will extend climate forecasting technology systems, such as the Famine Early Warning System and SERVIR, to help vulnerable counties adapt. USAID programs will also promote effective governance for climate change adaptation, by integrating climate vulnerabilities and resilience into development planning, development of national and community-based disaster management and risk reduction plans, national health service plans, and enabling policies; training local civil servants and community leaders to deliver services; and organizing private sector and civil society organizations to advocate for climate change solutions. These activities will lay the foundation for multi-stakeholder adaptation

actions in the coming years, and ensure that governments and civil society groups have the capacity to make decisions based on the best available scientific information and make effective use of future adaptation funding.

Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#25)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010

Food Security and Agricultural Development

Question:

There are four key pillars of the agriculture initiative that address global hunger: emergency response and management programs; safety net programs; nutrition programs; and agricultural development programs. When integrated, it is expected that the initiative will reach nearly 1 billion people suffering from hunger. Success in this initiative will require the full commitment of all agencies of the federal government with agriculture expertise.

Answer:

The \$3.5 billion USG commitment for agriculture made at L'Aquila is a part of the global L'Aquila Food Security Initiative (AFSI). This \$22.5 billion initiative reflects the commitment of the G8 and other donor nations to increase investment in agriculture and nutrition to improve the lives of the world's one billion hungry people.

The USG food security initiative, "Feed the Future," has been developed in the context of this broader initiative, to support strategic investments in agriculture, research, and nutrition to accelerate progress towards MDG 1 in countries committed to achieving that goal, and also to improve the coordination and integration of USG resources capable of contributing to global food security now and in the future. It will engage in only a subset of countries targeted by the AFSI, and as such does not adopt the 1 billion target on its own.

The foundational pillars of the Feed the Future Initiative are broad-based agricultural growth and improved nutrition. Our emergency response programs will

continue to mitigate the immediate, life-threatening, impacts of hunger. Although emergency resources are not included in the funding under the initiative, its emphasis on improving whole of government and global coordination will help to ensure that these resources have greater impact. Success in this initiative will require the full commitment of all agencies of the federal government with agriculture and nutritional expertise.

Question:

How will country-driven plans incorporate interventions across all of these areas? Will country guidance require the implementation of all four pillars in every country?

Answer:

There is not a formula or template that must be followed in each country. While the U.S. strategy lays out the types of investments we know to be important, the strategic mix of investments will likely vary among countries. Strategic uses of investments will be determined by the country's priorities and the United States' Government's comparative advantage and will take into consideration gaps in funding from other donors, including the multilateral banks and organizations and complementary investments from the U.S., such as by the MCC.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#26)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Food Security and Agricultural Development

Question:

Can you clarify how the \$1.6 billion agriculture request breaks down along these four pillars?

Answer:

All four elements of integrated food security programming highlighted in the introductory statement to these questions are important components of a comprehensive approach to food security. The Feed the Future initiative puts country-led coordination at the core of our strategy and thus that coordination will shape the mix and level of funding among these components differently in each country. Humanitarian assistance and emergency response is a critical piece of the comprehensive food security strategy but is not included in the \$1.6 billion request. In most countries, we expect funding for agricultural development to be at the core of our investment to drive a growth process that delivers increased availability and incomes to purchase food. At least \$75 million of initiative funds will focus on narrowing the gap between humanitarian and development assistance through expanded support for safety nets and other programs that reduce vulnerabilities for underserved populations. At least \$200 million will focus on nutrition programming in food security and global health priority countries for prevention and treatment of under-nutrition.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#27)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Food Security and Agricultural Development

Question:

How will this government-wide strategy be implemented?

Answer:

Our strategy acknowledges the importance of host country commitment and leadership. If the goal of food security is not owned at a country level it will not be achieved. Supporting that process requires the USG and other donor assistance to be coherent and well targeted. We have developed a coordinated, government-wide management structure at the country level under the direction of a FTF Country Coordinator designated by the Ambassador. The FTF Country Coordinator will work to ensure donor coordination in support of the host country's food security plan, and will oversee the development and implementation of a comprehensive multiyear strategy and annual work plans for USG investments made in the context of the host country plan. We also will engage in ensuring that country plans sufficiently address the opportunities and constraints in each country case. The initiative will represent a whole-of-government approach on a variety of levels. For example, it will integrate diplomatic outreach efforts of Embassies in support of donor coordination and appropriate policy reform; USDA's food aid or school feeding programs and technical assistance in areas such as sanitary-phytosanitary standards for trade; and the agricultural components of

MCC compacts. These efforts will be coordinated at a country level in a way that maximizes all USG investments.

Many global or policy-related issues will require similar whole of government coordination in Washington. We have already begun this through the Interagency Policy Committee, with members from USAID, State, NSC, USDA, HHS, DOD, MCC, Treasury, and other agencies who meet regularly to discuss the Feed the Future strategy and implementation. We will continue to work as an interagency as we implement FTF to ensure alignment of resources and programming for results.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#28)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Food Security and Agricultural Development

Question:

Will the Administration appoint a high-level coordinator for this initiative?

Answer:

The Administration is continuing its search for the Global Hunger and Food Security Initiative Coordinator. On April 7, Secretary Clinton announced the appointment of two Deputy Coordinators – to oversee the diplomacy (Ambassador Pat Haslach) and development (Ambassador Bill Garvelink) programs of the initiative.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Nita M. Lowey (#29)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Food Security and Agricultural Development

Question:

Will USAID have the technical lead in developing strategies and country programs with host country governments?

Answer:

Yes. This year, our Missions are already leading the dialog with governments, involving other members of the Embassy team. They also led the formulation of implementation plans and facilitated input from other USG agencies. In a number of cases, our Ambassadors have engaged at the highest level to ensure that the leadership of the country is committed to lead a coordinated process and has placed high priority on food security. We are assigning technical staff, particularly our agricultural officers, to Missions in food security focus countries to ensure we have the staff to engage in technical and policy dialog with the host country.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#30)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Food Security and Agricultural Development

Question:

How will the World Bank's Food Security Fund complement these bilateral efforts?

Answer:

The Global Agriculture and Food Security Program (GAFSP) will provide an additional, unified source of financing to support sustainable food security strategies of those developing countries which demonstrate their commitment to addressing the food security needs of their population.

This World Bank fund will leverage additional donor resources above that of bilateral commitments and provides an effective way to support larger infrastructure investments that will support food security such as major roads and port facilities. We have been working with the World Bank and the other early donors, Canada and Spain, to agree to the criteria for eligibility. These criteria are well aligned with our criteria for phase II level funding: a technically sound investment plan, evidence that it was developed with input from other stakeholders, and government commitment to a sound policy enabling environment. In addition, the Fund will explicitly look to fill gaps not covered by bilateral, other multilateral or host government funding. Some of these areas will likely be regional issues such as productive and efficient input markets and rural infrastructure. Given the scope of the effort, no one fund, and no one donor is expected

to shoulder all of the responsibility for large scale foundational investments. As the initial country proposals to the fund arrive in the coming next months, the complementarities to USAID and other USG resources will further defined.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#31)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Transparency and Accountability

Congressional oversight of federal agencies is a critical component of checks and balances – and particular attention to funds spent overseas is critical to our national security. Reporting back to Congress has been the traditional way of ensuring accountability – yet can be burdensome. Some USAID missions have reported that they have spent as many as 600 work days planning their work and reporting to Washington in a year. But as you know, quantity does not always equal quality. When asked about U.S. aid to Africa at a hearing before the House Committee on Foreign Affairs in March, Secretary of State Clinton said, “I don’t know where a lot of it ends up. And our transparency and our accountability measures are not adequate.”

Question:

Can we increase transparency without increasing reporting?

Answer:

Yes, we can increase transparency without increasing the reporting burden by working and reporting smarter. USAID can use technology more effectively to increase access to budget and program monitoring data. We will need to invest in and expand our use of existing technologies, such as Global Positioning Systems (GPS), Geospatial Information Systems (GIS), satellite imagery, mobile devices for real-time data collection and reporting, and networked online databases to store and share data critical for showing results and learning from our experience. We will work with our partners to ensure that the development and use of shared information platforms is a criterion of our grants and contracts. We have examples where USAID is already using many of these tools – we need to scale-up their use and connect these tools to streamlined reporting procedures to reduce the burden on our field missions.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#32)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Transparency and Accountability

Question:

And how do we reduce duplicative reporting that doesn't tell us whether our aid is working, and focus on the results that matter most?

Answer:

While it is useful to have some shorter-term input and output type indicators – such as “number of teachers trained” – to monitor program implementation, we need to shift our focus to measuring meaningful outcomes of our work. This will not be easy – development is a long-term process and in many sectors – such as education – it can take years to see a change in outcome results such as improved literacy rates and it can be difficult to attribute those results to our programs. To begin to address this, I have recently appointed Ruth Levine, PhD., as the Director of Evaluation, Policy Analysis and Learning, a newly created position within USAID. In this role, Dr. Levine will build a team to strengthen USAID's ability to focus on the results that matter most, learn from program implementation, and link the best available evidence to decision-making for more effective policies and programs.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#33)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Transparency and Accountability

Question:

How do we reduce the amount of reporting and still make sure that we here in Congress know where the money is going?

Answer:

One way we can reduce the reporting burden and still make sure Congress has the information needed for oversight is by using technology such as web portals to increase transparency and information sharing. In addition, with colleagues in the Office of U.S. Foreign Assistance at the State Department, USAID will review our reporting requirements and streamline them while working with Congress to ensure you receive the information you need.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#34)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Host Country Capacity

At your December confirmation testimony, you stated, "Every agency must find the right balance between internal capacity and external partnerships. But currently too many of our precious development dollars never leave Washington as a shrinking USAID has had to increasingly rely on contractors to manage programs. While some of these contracting relationships have proven to be effective and should be continued, we need to ensure that all of our programs are not only delivering measureable results, but are also being implemented in a way that builds long-term, local capacity."

Question:

How does the fiscal year 2011 budget request build USAID capacity, move away from an over-reliance on contractors, and enhance long-term, local capacity?

Answer:

The fiscal year 2011 budget request will allow us to continue the revitalization of USAID including reengagement in practices that build local capacity, instill local ownership of the development process and produce long-term sustainable results. I noted in my confirmation testimony that agencies must find the right balance between internal capacity and use of external partners in executing programs. While our contractors and grantees are essential to effective implementation of our foreign assistance programs, USAID must rebuild its internal capacity for the design, oversight, and evaluation of programs relying less on external partners for these core functions. In support of this goal, we plan to add an additional 200 Foreign Service Officers next year under our ongoing Development Leadership Initiative, and we are in the middle of a major effort to rebuild the Agency's capabilities that will move us to a more optimal balance.

For example, we are in the process of assessing approaches to achieve greater use of local country systems and promote local ownership. Local capacity is defined by functioning and efficient systems that are transparent and accountable and will ensure the effective stewardship of US taxpayer resources.. As we move toward relying more heavily on local partner institutions - public, nongovernmental and private—we must also ensure that assistance programs are effective, transparent, accountable and delivering results.

We are developing operational plans to move in this direction. In fact, using fiscal year 2010 funds, we are about to begin our first pilots for to assess risks in using country systems. These pilots will help us to strengthen and change our business model to include a broader range of tools beyond direct contracts and grants. We will consult with you and your staff as we move forward on this multi-year effort.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#35)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Maintaining Afghanistan Infrastructure

Question:

Billions of dollars have been spent to build infrastructure in Afghanistan since 2002 and this trend continues in the FY10 supplemental and the FY11 budget request. Unfortunately, the SIGAR and the USAID IG have found that the Government of Afghanistan (GOA) lacks the capacity to maintain these projects.

How do we build Afghan capacity quickly to maintain these projects both from a management point of view and a technical point of view?

Answer:

All energy programs funded by USAID include a capacity building component. One of those programs in particular, Human and Institutional Capacity Building in Energy and Natural Resources Sector, is explicitly designed to build the capacity of Afghan energy sector stakeholders on different levels through a variety of trainings and technical assistance. This program is training about 300 people per year from various provinces at Kabul Technical University in areas including but not limited to energy program design and management, IT systems, hydrology and electricity, as well as on-job training at sub-stations. In addition, USAID is strengthening the Afghanistan Vocational Training Center with assistance that includes developing and modifying curriculum on energy subject matters, as well training professors to ensure long term sustainability of the USG's capacity building efforts in the country. Other assistance in this area encompasses provision of training in renewable energy and energy efficiency as well as sending Afghan energy sector officials to the regional trainings as part of the South Asia Regional

Initiative for Energy (SARI/Energy). It should be also noted that USAID is initiating regular donor coordination meetings that are supporting capacity building in Afghanistan energy sector that will most likely be held under the auspices of Inter-Ministerial Committee for Energy.

Furthermore, it should also be noted that USAID funded infrastructure projects include operations and maintenance plans from the outset in order to ensure a plan is in place for Afghans to operate and maintain a given project once USAID's involvement is complete.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairwoman Nita M. Lowey (#36)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

GOA Maintenance of Infrastructure Projects

Question:

What assurances do we have from the GOA before we undertake these projects that they will make maintenance of these projects a priority?

Answer:

All capacity building programs have been designed with the consultation of the Government of Afghanistan and include an operations and maintenance component so that the government can take charge once the programs have been successfully implemented and/or completed. For example, USAID is also building the capacity of the Afghan Government to manage road maintenance contracts with local firms through the establishment and strengthening of a Road Maintenance Unit (RMU). Staff members of the Ministry of Public Works (MPW) assigned to the RMU receive technical assistance and on-the-job training in administering and monitoring performance-based contracts, while local contractors are taught how to implement them. The capacity building program will also help create an Afghan Government Highway Authority.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#37)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

USAID/GOA Consultations

Question:

How much consultation does USAID do with the GOA prior to moving on a project?
How do we measure their support for these projects?

Answer:

As part of USAID's regular project design process, consultations with the government take place. Roles and responsibilities of the Government of Afghanistan vis-à-vis program implementation, monitoring, and oversight are clarified and documented. USAID fully aligns its assistance with the principles laid out in the Afghanistan National Development Strategy and makes every effort to ensure government support of a particular activity prior to moving forward. Furthermore, USAID also conducts portfolio reviews twice a year with the Government of Afghanistan.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#38)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

USAID/GOA Disagreements

Question:

If the GOA disagrees with us on a project's priority, how is that dispute worked out?

Answer:

USAID works to align all of its assistance efforts with the priorities outlined in the Afghanistan National Development Strategy. Prior to implementation, all proposed activities are discussed and evaluated with the Government of Afghanistan. Whenever possible, USAID defers to the government if a dispute arises.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#39)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

SIGIR and IG Recommendations

Question:

The IG's recommendations included establish procedures requiring that a labor skills assessment be performed by a contractor, either upon award of construction contract or upon the award of a task order under the contract and written procedures to ensure that all significant construction projects have onsite quality assurance engineers. What steps have been undertaken to implement the recommendations of SIGAR and USAID IG?

Answer:

Both of these audit recommendations have been addressed, and one is closed.

Written Procedures for Labor Skills Assessment

The RIG/Manila accepted USAID's response to this recommendation, submitted on October 20, 2009 (attached, Recommendation 3). The response agreed with the audit's finding on the importance of developing Afghan construction capacities and described steps taken to meet this need, but argued that specific labor and capacity issues are best addressed on a case-by-case basis during pre-award surveys. The response describes capacity and skills development activities for work at the Shebregan gas fields, and Tarakhil Power plant. Focused training and on-the-job training programs also exist for other power projects, road construction, and vertical structures (buildings). USAID/Afghanistan's work in water and sanitation has not involved large-scale construction to date, but we anticipate a capacity-building component for new projects in Kabul, Kandahar, and possibly other cities in the coming years.

Written Procedures for Quality Assurance

The RIG/Manila accepted USAID's response to this recommendation, submitted on October 20, 2009 (attached, Recommendation 4), which committed to require that all offices ensure that a Quality Assurance Surveillance Program is included during the construction of vertical structures. USAID's Office of Acquisition and Assistance (OAA) issued a notice to this effect on November 22, 2008. Quality assurance procedures were then strengthened on December 7, 2009, with a notice (OAA Notice 10-001, attached) that defines the technical standards to be observed and requires quality assurance monitoring for all significant construction projects, including roads.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#40)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

High Impact Energy Programs in Afghanistan

Question:

As the IG report explained, as of May 2009, only 12 megawatts (MW) of power were on-line. Can you give us an update on where these two programs currently stand?

Answer:

Much progress has been made since May 2009 on the Kajaki Hydroelectric Power Plant and the Kabul Power Plant.

Kajaki Dam. USAID completed rehabilitation of the Unit 1 turbine at Kajaki Dam on September 12, 2005, and completed rehabilitation of the Unit 3 turbine on October 4, 2009, bringing the total generated by Kajaki to 33MW, and contributing to the greatest supply of electricity ever to Kandahar and Helmand provinces. A new 18.5 MW turbine for Unit 2 has been at the dam since August 2008, but security in the 50-mile Sangin Valley is not adequate for transport of large quantities of construction material such as concrete to the site, or for construction of a new transmission line required to carry the increased load. The existing line is frequently sabotaged and damaged during fighting. If the area is more secure by the fall of 2010, work could begin and construction could be completed around June 2012 to bring an additional 18.5 MW online.

Acting on the assumption that the Afghanistan National Security Forces and ISAF will increase security, USAID plans to request commercial expressions of interest from construction firms in the next several weeks, to determine if responsible companies are willing to bid on the installation of the 18.5 MW turbine already delivered to Kajaki. Bids under a USAID task order are being analyzed now for installation of a new substation at Durai Junction and for long lead-time transmission equipment such as transformers and circuit breakers. These actions will modestly improve system reliability and prepare for increased production, while demonstrating to the population that concrete steps are being taken to enhance access to electricity.

Kabul Power Plant. On December 8, 2009, twelve days ahead of schedule, the USAID-financed Kabul (Tarakhil) Power Plant achieved full generation capacity of 105 MW when Block C became operational. Completion of all construction is scheduled for May 2010, and hand-over to the Government of Afghanistan is scheduled for June 2010. USAID will provide operations and maintenance and a training program for several years, until Afghan staff are fully able to sustain plant operations.

Tarakhil was initiated at the request of the Afghan Government and is intended to supplement hydropower and imported power, especially in winter when demand is high and hydropower is low. Tarakhil is a much more efficient source of power than the old Northwest Kabul Power Plant that it replaces, or the thousands of individual generators around the city. It has the potential to reach over 600,000 residents of Kabul immediately, and will contribute power to seriously underserved cities to the south if the North East Power System is eventually extended.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#41)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Delays and cost overruns of Energy Sector Programs in Afghanistan

Question:

Both the Special Inspector General for Afghanistan Reconstruction (SIGAR) and USAID's Inspector General (IG) have recently reported significant delays and cost overruns for USAID energy sector programs in Afghanistan. According to these reports, two projects: The first to build a diesel-powered electricity-generating plant that would provide 105 megawatts of additional power to Kabul and the second to increase the capacity of the Kajaki Dam in Helmand Province by 35 megawatts at a combined price of \$305.5 million are significantly delayed. These delays were caused by, among other things, an ambiguous statement of work resulting in inadequate planning and implementation; subcontractor performance problems; lack of mission onsite quality assurance; and deteriorating security. SIGAR found that of the Kabul Power Plant's total project cost \$40 million was directly linked to project delays. In its November 2009 report, USAID IG found that "in May 2009, the mission-funded projects had completed construction of generators with the ability to produce only 12 megawatts of power out of the original goal of 140 megawatts—and this increase in power had not actually been delivered to the Afghan population."

I am concerned that the Afghanistan and Pakistan Regional Stabilization Strategy contains, as one of its key initiatives, high impact energy programs. What processes and procedures are being established to ensure that these mistakes are not repeated in Pakistan?

Answer:

I am aware of the audit report regarding the Kabul power plant, and I would like to provide some additional information. This plant, initiated at the request of the Afghan Government, is intended to provide back up, emergency, and peak demand power for Kabul, particularly needed during the winter when hydropower is low. The plant is a more efficient source of power than the existing Northwest Kabul Power Plant or the

thousands of individual generators in Kabul, and is not expected to run at full capacity for long periods of time.

The plant is part of a larger energy solution, which includes the North East Power System (NEPS) and power imports from Central Asia. NEPS allows for reliable transmission of electricity to Kabul. Among many other power sector activities, USAID supports the Government of the Islamic Republic of Afghanistan to expand and coordinate NEPS and to structure increased power from its neighbors.

Since mid-October 2009, the Kabul plant has been dispatching power nearly every evening during peak demand periods from Block A generators. At 105 MW, the plant has the potential to reach over 600,000 residents of Kabul. USAID is working with the Government of the Islamic Republic of Afghanistan on concerns regarding the operations and maintenance of the plant and cost recovery associated with the purchase of fuel.

Furthermore, it should also be noted that USAID's technical experts in both DC and the field make every effort to share lessons learned and conduct outreach to the community in order to ensure that mistakes are not repeated.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita M. Lowey (#42)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Capacity Building in the Federally Administered Tribal Areas (FATA)

Question:

In January, the USAID Inspector General's report found the USAID's contract to Development Alternatives, Inc. (DAI) for the FATA to be largely ineffective. The Program was intended to increase the capacity of FATA governmental institutions including the FATA Secretariat and the FATA Development Authority and also FATA nongovernmental organizations (NGOs). The total amount awarded to DAI of this 3-year contract is \$45.6 million. The report highlights that security concerns led to an increase in the cost of the contract and delays in implementation have led to very few accomplishments.

The Inspector General states that "although the program has provided training, taken initial steps to automate FATA institutions, and completed some media activities, little has yet been achieved in building the capacity of FATA governmental institutions and NGOs." What steps has USAID undertaken to ensure the capacity building activities are having the necessary impact?

Answer:

This audit concluded the program has "not yet achieved the goal." The audit was conducted in year two of a three year project, which is not slated to end until December 2010. The audit reports that some progress had been made, while certain specific objectives had not been completed. USAID/Pakistan agreed with the audit's four recommendations, and has already taken action on all of them.

Contrary to the assertion that little has been achieved in building FATA government institutions and NGOs, USAID has taken many steps that have resulted in increased capacity of these organizations. It is important to keep in mind that this

program is being implemented in one of the most dangerous places in the world. While USAID/Pakistan strives to ensure timely and consistent implementation of activities on the ground, coupled with sufficient oversight of U.S. taxpayer funds and security of our partners and our recipients is foremost. With this in mind, we would like to share with you some of our recent accomplishments.

Capacity Building of FATA Secretariat (FS) and FATA Development Authority (FDA):

- 67 trainings have been completed that have benefited 1,134 staff members. These trainings focused on building and strengthening project management, development planning, and financial management and information technology capabilities.
- \$1.2 Million of IT equipment has been procured for the FATA Secretariat and FDA, which is now networked and fully resourced. Networking and equipment distribution in FS is underway.

Civil Society Organization (CO) Capacity Building:

- 64 grants approved benefitting over 37 CSOs.
- 243 staff from 36 FATA CSOs trained in Organizational Development, Management Development, Financial Management, Proposal Writing, and Disaster Risk Management.

Strategic Communications:

- 273 media programs developed and aired.
- One FM radio station called *Amn* Radio (Radio Peace) is in the process of being built in Mardan for Internally Displaced Persons. (IDPs). Purchase of equipment and renovation is currently being undertaken.

Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Nita Lowey (#43)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010

Capacity Building in the
Federally Administered Tribal Areas (FATA)

Question:

The report concludes that the delays in the contract implementation were caused by a high-level change of emphasis in U.S. Government strategy toward greater involvement of Pakistani organizations in implementing assistance programs. Does the emphasis on greater involvement of Pakistani organizations continue to cause delays to implementation?

Answer:

Contrary to the assertion that little has been achieved in building FATA government institutions and NGOs, USAID has taken many steps that have resulted in increased capacity of these organizations. It is important to keep in mind that this program is being implemented in one of the most dangerous places in the world. While USAID/Pakistan strives to ensure timely and consistent implementation of activities on the ground, coupled with sufficient oversight of U.S. taxpayer funds, security of our partners and our recipients is foremost. With this in mind, we would like to share with you some of our recent accomplishments.

Capacity Building of FATA Secretariat (FS) and FATA Development Authority (FDA):

- 67 trainings have been completed that have benefited 1,134 staff members. These trainings focused on building and strengthening project management, development planning, and financial management and information technology capabilities.

- \$1.2 Million of IT equipment has been procured for the FATA secretariat and FDA. FDA is networked and fully resourced. Networking and equipment distribution in FS is underway.

Civil Society Organization (CO) Capacity Building:

- 64 grants approved benefitting over 37 CSOs.
- 243 staff from 36 FATA CSOs trained in Organizational Development, Management Development, Financial Management, Proposal Writing, and Disaster Risk Management.

Strategic Communications:

- 273 media programs developed and aired.
- One FM radio station called *Amn* Radio (Radio Peace) is in the process of being built in Mardan for IDPs. Purchase of equipment and renovation is currently being undertaken.

Furthermore, I would like to note that as consistent with best practices in international development, U.S. assistance will be directed increasingly through a broad range of Government of Pakistan institutions, as well as local non-governmental organizations (including the private sector) with the capacity to implement programs effectively and accountably. This approach will help increase host country ownership, and U.S. commitment to building a long-term partnership with the Pakistani government and people.

In order to implement this approach, we have begun to assess a ministry's or provincial Government's internal controls, procurement systems, financial management systems, and administrative management systems in order to determine if they are ready to receive direct USAID funding. After the technical teams determine who is the strategic partner, a Pre-Award Survey is completed on these institutions. The Pre-Award Surveys are either completed directly by USAID/Pakistan Financial Management Office or through a CPA firm, which has been approved by the USAID/Regional Inspector General. If any weaknesses are identified during the survey USAID has three methods to

provide capacity building to organizations: 1) inserting CPA firms directly into the organization (done with the FATA Secretariat); 2) Procuring a local firm to do capacity building directly with organization; and/or 3) when partnering with a local subsidiary of an American/international firm USAID will partner with the international headquarters to provide assistance. USAID/Pakistan, the USAID/Regional Inspector General's Office in Manila, and Pakistan's Supreme Audit Institution, the Auditor General Pakistan (AGP) signed an MOU in 2007 that ensures that all Government of Pakistan entities receiving USG funding will be audited by AGP. The USAID/Regional Inspector General's Office in Manila then approves all audits.

These assessments and efforts to move towards more implementation through local Pakistani entities are operating concurrently with active programs and therefore not effecting implementation. In this transition we are making every effort not to disrupt service to the people of Pakistan.

**Question for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Kay Granger (#1)
Subcommittee on Foreign Operations
Committee on Appropriations**

March 4, 2010

Tuberculosis Funding

Question:

Please describe the fiscal year 2011 budget request for Tuberculosis (TB) programs and how these programs will be enhanced under the Global Health Initiative (GHI)? How were the TB targets set under the GHI and what portion of those targets will be met with the FY11 request? Is the request sufficiently addressing the continued spread of drug resistant TB?

Answer:

The FY 2011 budget request for Tuberculosis is \$230 million. With these resources, USAID will continue to scale up country-level programs to diagnose and treat Multi-Drug Resistant TB (MDR TB), with particular attention focused on countries with a high burden of disease. With the funding increase provided by Congress in FY 2008-10, our programs are already ramping up, including services to diagnose and treat MDR TB and improving the quality of basic TB services to prevent the development of drug resistance.

In the six-year Global Health Initiative (GHI), we established conservative targets that took into account the estimated costs to diagnose and treat basic TB and MDR TB and the currently available diagnostics and drugs. The treatment of 57,200 cases of MDR TB in USAID priority countries represents a significant increase compared to the mere several thousand cases of MDR TB that were treated according to international standards globally in 2008. However, these targets could be surpassed substantially with the

introduction of new technologies and enhanced donor contributions to the Global Fund and other TB control programs. We are working with public-private partnerships on the development and introduction of new diagnostics and drugs, and once clinical trials and country-level evaluations are completed, we anticipate that these new tools will help accelerate TB case detection and shorten treatment duration. In addition, country level evaluations of more rapid tests for MDR TB are already underway in numerous countries, and the clinical trials on several new drugs to treat TB are promising. These developments could substantially increase our impact.

Under the GHI, the TB programs will be enhanced in several ways. Integration across various health programs will be strengthened, including with HIV/AIDS and maternal child health programs. The engagement of private health providers and community-based approaches to find TB cases have proven successful in numerous countries; these interventions will be scaled up and linked more effectively with other health outreach activities. These efforts will also help us reach persons suspected of contracting TB more rapidly, including women. We will continue our very effective collaboration with multilateral partners and donors, in particular with the Global Fund. Our bilateral programs directly complement and leverage Global Fund grants by addressing key gaps, such as technical assistance, laboratory renovation, procurement of equipment, logistics systems and infection control.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Kay Granger (#2)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

New USAID Office Afghanistan/Pakistan

Question:

When do you anticipate a decision regarding the creation of a new office on Afghanistan and Pakistan? Will this office replace the current Afghanistan-Pakistan Task Force? If you intend to proceed with establishing this office, please provide an explanation on the need for a new office outside of existing structures and the proposed authorities for the office leadership.

Answer:

The Task Force (APTF) was created at the end of the last Administration in November of 2008, with a renewal period of 180 days. It has since been extended several times over the course of the last year. The primary objective of the Task Force is to position USAID to more closely focus on, and optimize, USG reconstruction and development efforts in Afghanistan and Pakistan, to resource those efforts, and to represent USAID and development in the USG interagency process. During its operation, the Task Force supported Afghanistan and Pakistan programs individually and seek synergistic activities between the two countries. Since the establishment of the Task Force, both the Afghanistan and Pakistan programs have gained prominence as one of the new Administration's top foreign policy priorities. Both will likely continue to be among the Agency's top priorities for the next several years.

Because the Task Force is a temporary structure, most of its staff are assigned, on detail, from other operational units throughout the Agency. Although the Task Force now has dedicated space and delegations of Assistant Administrator and Deputy

Assistant Administrator authorities for the Task Force Director and two Deputy Directors respectively, it has been a continuing challenge to recruit permanent staff to a temporary organizational unit. Staffing gaps in critical positions continue to contribute to management vulnerabilities.

Creation of a separate, permanent office with dedicated staff and budget, and the appropriate budgetary authority and delegations of authority (including continued direct reporting to the Administrator), will enable the Agency to better fulfill its mandate to support the Afghanistan and Pakistan programs and to optimize USAID assistance to the USG reconstruction and development effort in both countries. Field programs, budget levels, interagency coordination requirements and staffing are expanding rapidly, and are extremely complex. Dedicated resources and staff are at historic levels and will deepen USAID's ability to deliver results. It will have a beneficial impact on the Agency's position as the USG's primary development assistance organization. USAID has notified Congressional committees informally of the plan for the new office, and looks forward to continued consultations with Congress on this issue. Upon completion of any further possible consultations with Congress, Administrator Shah will determine the timing to formally approve and announce the creation of the office.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Kay Granger (#3)
Subcommittee on Foreign Operations
House Committee on Appropriations
March 4, 2010**

Cost Analysis (in new Afghanistan-Pakistan Office)

Question:

Does the proposal to establish the new office include a cost analysis? If so, how is this being addressed?

Answer:

Because the Task Force is a temporary unit, it has not had its own budgeting authority, or independent capacity to determine costs exclusive to the Task Force. In the past year, the Task Force has worked with both the Bureau for Asia/Middle East and the M Bureau to develop a separate budget for all Task Force staff and support requirements.

Cost figures are being developed to account for the full range of funding, both OE and Program, required for staff and management support of the permanent organizational unit. The costs of staff and their support are expected to be approximately the same as de facto costs at present, plus the costs to fill currently vacant positions.

**Question for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Kay Granger (#4)
House Appropriations
Committee on Foreign Operations**

New USAID Office Afghanistan/Pakistan

Question:

With regard to staffing, how many people are currently on the Task Force? What will the net increase be in staff based on the proposed reorganization? Will staff currently assigned to the Task Force move back to prior assignments? Finally, will this reorganization allow positions to be backfilled across the Agency? If so, where?

Answer:

Currently there are 63 core staff members on the Task Force. The Task Force has a workforce that includes U.S. Direct Hire Foreign and Civil Service, Institutional Contractors, U.S. Personal Service Contractors (USPSC), and Program Funded (PASA) staff. Of the 63 core staff, four are detailed to the Department of State (three of which are part of the Office of the Special Representative for Afghanistan and Pakistan), and two staff are detailed to the National Security Council (NSC). Based on the proposed reorganization, there will be 66 total core staff.

Once the Office is established, U.S. Direct Hire staff currently detailed will be given the option of returning to their home offices, or be reassigned to the new Office. Other positions will be announced for recruitment of Foreign and Civil Service staff. Program funded staff will remain in place under their agreements/contracts. Once detailed USDH officers are officially reassigned to the new Office, their positions from which they were detailed will be backfilled. Currently detailed Task Force staff

members are from across the Agency, with core staff coming from the Bureaus for Asia, Middle East, Management, and Economic Growth, Agriculture and Trade.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Kay Granger (#5)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

USAID Workforce

Question:

What is the status of hiring, training, and deploying the 700 new Foreign Service positions funded by this subcommittee and specifically, how many of these positions remain unfilled?

Answer:

USAID received funding in FYs 2008, 2009, and 2010 to hire a total of 720 additional Foreign Service Officers (FSOs). To date, the Agency has hired 483 FSOs 54 of which are part of the additional 300 officers for 2010.

Of the 483 FSO hired, majority are entry level officers. We are studying options for increasing the number of mid-level hires to fill critical gaps and will be consulting with Congress as plans develop.

Before newly hired staff can be sent to the field, they must receive required language and other training both in Washington and at field Missions. Of the 483 officers hired, approximately 220 are now in field positions that combine on-the-job training and careful mentoring. The other 200 FSOs are enrolled in Washington-based training to fulfill language proficiency requirements and other programmatic and technical aspects of their new assignments. This extended training assists the Agency in achieving its goal of improved professional capabilities among the new hires.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Kay Granger (#6)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

USAID Workforce

Question:

The Fiscal Year 2011 request supports an additional 200 officers. Do you expect the goal of doubling of the Foreign Service will be achieved by 2012, and does that remain the objective?

Answer:

USAID's goal to double the size of its Foreign Service Officer (FSOs) corps remains. The Agency is currently reassessing the timeframe in which we will achieve the goal. Thanks to the support of Congress, with FY 2010 funding we will have been able to hire over 700 FSOs. The Missions overseas are straining both the physical limitations of Embassies as well as ICASS services. Moreover we want to ensure that first tour officers have strong supervisors and mentors at their first post. We are working with State and OBO to address these constraints as well as do targeted mid-level recruiting to meet some of the supervision and mentoring needs. As the DLIs in the field begin graduating to permanent positions (which is beginning this year), and as new construction, refits, and rentals are completed we will be able to meet our goals. The additional 200 FSOs requested in FY 2011, will allow the Agency to reach approximately 75% of this goal.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Kay Granger (#7)
Subcommittee on Foreign Operations
Committee on Appropriations**

March 4, 2010

USAID Workforce

Question:

As these new staff come on board, has there been a reduction in the use of contractors? Are there particular activities that you want contractors to continue to perform?

Answer:

USAID expects the level of contractors to begin declining after FY 2011 when the Foreign Service Officers (FSOs) hired under the Development Leadership Initiative (DLI) graduate and are assigned to their first permanent positions. Since the majority of DLI Foreign Service Officers are junior officers, they are not yet equipped to fill the mid-level positions that contractors are currently filling. We are developing plans to address this issue.

USAID will always need contractors with specialized skills that are required for specific projects or programs, but not for career positions. For example, if USAID requires a structural engineer for a particular country to manage reconstruction activities, or a very specialized health expert to manage a specific program, a contracting arrangement is likely to be more appropriate and cost effective for this shorter term need.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Kay Granger (#8)
Subcommittee on Foreign Operations
Committee on Appropriations**

March 3, 2010

Microenterprise and Water

Question:

Please provide a justification for the reductions in Microenterprise and Water from the FY 2010 enacted level in the request.

Answer:

USAID has requested funds to implement programs in Microenterprise and Water for FY 2011. USAID's request for Microenterprise programs is \$230 million and its request for Water programs is \$260 million. The FY 2011 levels requested in both areas represent the best current programming estimates, but may be understated because some qualifying activities are not identified until operational plans are submitted and finalized.

USAID's microenterprise programs play a prominent role in the U.S. Government's broader economic growth and poverty reduction agenda by extending financial, enterprise development, and regulatory products and services to microentrepreneurs. The Agency's water programs are designed and implemented in accordance with the Senator Paul Simon Water for the Poor Act of 2005 with particular attention to advancing progress in gaining access to drinking water supply, sanitation and hygiene for the poor in developing countries, while strengthening water resources management, water productivity and water security.

Budget: In FY 2009, USAID requested \$103 million for spending on microenterprise, and \$167 million in FY 2010. Therefore, the request of \$230 million represents a substantial

budget request increase. For water programs, USAID requested \$116 million in FY 2009, and \$176 million for FY 2010. Similarly, therefore, the FY 2011 request level of \$260 million is an increase in the President's budget compared to last year's request. While Congress enacted a water earmark in the FY 2010 Appropriations Act of \$315 million, our budget requests are based on USAID field missions' budget estimates where difficult choices have to be made among many urgent priorities, including support for microenterprise and water programs.

Areas of Focus: The Agency's Microenterprise Development programs also fall into three broad program categories:

- **Financial services:** Developing and providing financial services adapted to the needs of low-income people; especially small loans, facilities for small savings deposits, and simple payments services needed by microentrepreneurs.
- **Enabling environment:** Supporting the development of a competitive and open environment for microfinance services and microenterprise formation and growth through appropriate laws, policies, regulations, and supervisory and administrative practices.
- **Enterprise development:** Assisting microentrepreneurs to acquire skills and knowledge, gain access to financing and other inputs, and develop commercial relationships with other firms in order to tap into higher-value local, regional and international markets.

The Agency's water programs fall into four broad program categories:

- **Water supply, sanitation and hygiene** (FY 2008: actual expenditures \$390 million)
- **Water resources management** (FY 2008: actual expenditures \$59 million)
- **Water productivity** (FY 2008: actual expenditures \$40 million)

- Disaster risk reduction (FY 2008: actual expenditures \$2 million)

Annual Reporting: In compliance with the Microenterprise Results and Accountability Act of 2004, USAID publishes an annual report detailing microenterprise activities from nearly 50 operating units within USAID/Washington and the field. The report captures data from the previous fiscal year. This year's report, to be published in June 2010, will have details on FY 2009 activities. Furthermore, in accordance with the terms of the Senator Paul Simon Water for the Poor Act of 2005, State and USAID publish an annual report detailing water activities from more than 70 operating units within USAID/Washington and the field. This year's report, to be published in June 2010, will have details on FY 2009 activities.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Kay Granger (#9)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

Climate Change, Global Health and Food Security

Question:

How will you ensure that the increases for Climate Change, Global Health, and Food Security will be programmed effectively, particularly as these initiatives are just getting started?

Answer:

USAID has years of experience working in climate change, global health, and food security. With the renewed and expanded focus on these issues, we are elevating our efforts, developing new coordination mechanisms and implementation strategies, building the capacity of our field Missions to program increased funds effectively, and putting monitoring and evaluation tools in place to measure our impact.

USAID has made great strides in establishing mechanisms to ensure that its development activities are undertaken within the framework of a comprehensive and integrated development approach, which employs strategic multi-sector synergies for improving performance and producing greater results. For example, the Agency's new USG Global Hunger and Food Security Initiative is multi-disciplinary and being developed and undertaken with a cross-cutting approach that includes the direct participation of development experts from a wide variety of sectors – including agriculture, environment, nutrition, maternal and child health, education, infrastructure, gender, and family planning and reproductive health. Similarly, one of the principles of

President Obama's Global Health Initiative (GHI) is integration with other sectors to ensure a cross-cutting sector approach that will benefit from the development linkages within USAID and across the USG.

USAID's functional and regional bureaus in Washington are working closely with Missions to ensure that they are prepared to effectively program new funds and integrate these priority issues into existing programs. Technical experts in Washington also produce manuals, toolkits, and guidebooks and provide in-person field support to assist USAID Missions with programming related to these initiatives.

In addition to field support, issue experts at USAID headquarters coordinate in-depth training for USAID staff in each of these areas. Last year, more than 100 USAID staff from Washington and the field attended a five-day training on making our development portfolios "climate resilient." The Agency plans to expand this annual training effort by offering regional sessions and developing a targeted training for new foreign service officers. An upcoming Agriculture Overview course for new Foreign Service Officers and other USAID staff will incorporate issues related to Food Security. Health field staff regularly participate in regional state-of-the-art training sessions, as well as specialized forums.

We are also taking steps to ensure we are targeting our efforts carefully to get real results on the ground. We are giving greater emphasis to science and applied research, to aid in prioritization, as well as practical and effective program design. Further, we are working to develop monitoring and evaluation systems and useful indicators that will allow us to track progress toward key initiative objectives.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Kay Granger (#10)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

Climate Change, Global Health and Food Security

Question:

Please describe how the three requested interagency initiatives – Climate Change, Global Health, and Food Security – will be coordinated. Do you see this model being applied more broadly to foreign assistance outside of these three initiatives?

Answer:

As a policy, USAID encourages cross-cutting working groups in Washington and at the Mission level to oversee and manage assistance. The Agency's programming guidance to Missions encourages the creation of crosscutting "Assistance Objective Teams" that operate above the sector and project level to build connections between sector approaches. Teams have been assembled to support Climate Change, Global Health and Food Security initiatives. In addition, issue experts at USAID headquarters develop guidance materials to instruct staff at Missions on integrating the three key initiatives into their wider development portfolios. For example, USAID climate change experts have developed briefers on integrating climate change into development approaches in other sectors, such as health, agriculture, and economic growth, and other cross-cutting issues, such as gender and biodiversity.

Agency environmental, agriculture, and health officers have conducted analytical work on the interrelationships among these key initiatives and are developing illustrative approaches to integrated programming. A crosscutting working group on Food Security,

Climate Change and Water connects the work of the Food Security and Climate Change Agency Policy Coordinating Committees, keeping the channels of communication open between these closely related Agency programs.

Washington-based climate change experts are developing illustrative approaches for missions on how climate change mitigation and adaptation measures can make development programming in other sectors, especially health, agriculture and water, more resource-effective and resilient. USAID's climate change approach builds in links to food systems and health as they relate to adaptation, addressing how to make food systems more climate resilient and how to manage increasing health risks. The Agency's implementation working group is also developing programming guidance on how to integrate climate considerations into the four phases of the Agency programming cycle – assessment, design, implementation, and evaluation.

At the interagency level, USAID works with many partners in the U.S. Government to ensure a whole-of-government approach to these key issues. USAID is working with the Millennium Challenge Corporation to develop a framework that will guide the Agency's actions and priorities related to Food Security; the framework makes explicit the linkages to climate change, nutrition and health. USAID collaborated closely with the State Department and Treasury to develop the FY 2011 climate change budget.

Building on a long tradition of U.S. Government global health leadership, the Global Health Initiative (GHI) represents a whole of government opportunity in which USAID will work closely with the State Department, the Department of Health and Human Services, and other key interagency partners to ensure that the GHI achieves its objectives in partnering with countries to improve health outcomes and strengthen health

systems. This approach allows the assets from each agency to be leveraged to achieve common U.S. objectives.

USAID also supports the State Department and other Agencies at multilateral fora on these issues. At the UN Climate Negotiations in Copenhagen in late 2009, USAID representatives on the U.S. delegation provided technical expertise, contributing development lessons and insights into developing country capabilities to support more effective policies and programs.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Kay Granger (#11)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

Foreign Assistance Delivery

Question:

What can USAID do to determine which foreign assistance delivery approaches work best and then eliminate activities that do not work? How will you work with your counterparts in other agencies to ensure that any duplication is uncovered and eliminated?

Answer:

USAID currently uses the results of assessments and evaluations in the work we do with other donors and partner governments to define program and project strategies. For example, the findings from evaluations of microfinance programs have been widely shared and are used to inform the activities of many of our partners. I have committed to strengthening our evaluation activities and our use of evidence, from both our own evaluations and the accumulated evidence base generated by others.

For major initiatives, such as the Global Health Initiative and the Global Hunger and Food Security Initiative, a monitoring and evaluation (M&E) framework is being developed to permit more systematic assessment of how well programs are achieving their objectives. The M&E framework will look both at what types of interventions and investments are being supported, and at how the work is being done, so that conclusions can be drawn about the effectiveness of different types of delivery approaches -- for example, more integrated packages of services versus more "vertical" or intervention-specific ones. These assessments will be used to adjust resource allocations and

strategies. At the most micro level, operations research within the Global Health and Global Hunger and Food Security Initiatives will be used to rigorously assess the comparative impact of different ways to deliver health services and reach poor rural households with agricultural inputs.

USAID works closely with other agencies in the field, under the direction of the U.S. Embassy Chief of Mission, to coordinate our development activities. All agencies at a post participate in the development of annual resource plans, and we currently are preparing guidance for multi-year whole-of-government Country Development Cooperation Strategies. Both the resource plans and country strategies are designed to facilitate interagency planning and outlining roles and responsibilities. In Washington, we are taking specific steps to ensure close coordination. For example, under our Global Health Initiative, we are working collaboratively with the Departments of State and Health and Human Services to review all of our associated health contracts and programs in a number of countries to ensure our efforts are not duplicative. We will enter into new long-term partnerships with the host governments and with other partners that are more systems-oriented and focused on a set of maternal and child health and outcomes.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Kay Granger (#12)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

UNOPS

Question:

What is USAID's response to the December report from GAO that found that USAID has not consistently implemented its oversight policies when providing grants through the UN Office for Project Services (UNOPS)?

Answer:

Since issuance of the GAO report, "Management Reforms Proceeding but Effectiveness Not Assessed, and USAID's Oversight of Grants Has Weaknesses" (UNOPS)-GAO10-168, USAID has taken action to strengthen its overall processes and policies related to Public International Organizations (PIOs), such as UNOPS. USAID agrees with many of the report's recommendations for improved procedures, stronger guidance, and more training and monitoring related to the use of PIO audit provisions, and responded affirmatively to the GAO report findings to better safeguard funds provided through these PIO mechanisms.

USAID is now in the process of revising existing policy to set up a more effective structure for managing PIOs, to simplify definitions, and to clarify the responsibilities of USAID staff in a manner consistent with our practical engagement with PIOs. We will continue to take steps to ensure that funds programmed through these mechanisms are carefully safeguarded. The Agency already took steps toward this end based on the GAO report findings, including:

- Drafting of the new revisions to Agency policy related to PIOs in order for USAID to meet its programmatic needs through use of these types of awards appropriately.
- Reiterating to all contracting and agreement officers that they include the most appropriate audit provisions within PIO awards and remind them to share information on PIOs with the central Office of Acquisition and Assistance in Washington D.C. to be dispersed amongst different Bureaus and Missions, as appropriate.
- Preparing a training seminar to cover PIO audit provisions for all USAID contracting and agreement officers worldwide. The seminar will take place in early May 2010.
- Incorporating review of PIO grants in mission evaluations to focus on the use of audit provisions. This review has now been incorporated as a permanent step for our existing procedures related to the “Agency Scorecard and Risk Assessment,” which is an internal evaluation of the acquisition and assistance process for USAID Missions and Washington D.C. offices.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Kay Granger (#13)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

UNOPS

Question:

What steps has USAID taken to improve oversight of funds that flow through UNOPS?

Answer:

USAID actively reviews and evaluates activities with UNOPS, as well as those associated with other PIOs. In 2008, the Agency applied significant safeguards, such as requiring additional financial documentation for programs associated specifically with UNOPS and UNDP. As well, we are now directly reviewing materials associated with USAID programs during numerous visits we have made to UN headquarters in New York City. As well, USAID sent a delegation to review documents at UNOPS headquarters in Copenhagen in October 2009.

In moving forward, USAID contracting and agreement officers have been advised of the GAO findings. They are all aware that they may include special provisions (associated with additional reporting and record keeping requirements), where applicable, that allow for expanded and improved oversight of the specific program implemented under the PIO.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Kay Granger (#14)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

UNOPS

Question:

Why does USAID use UNOPS as opposed to other partners that have a track record of accountability and transparency? Is there a unique capability or cost advantage to UNOPS?

Answer:

USAID selects appropriate partners for our worldwide programs based upon criteria necessary to meet our efforts and to achieve desired results within necessary timeframes. As part of our criteria, we consider the results necessary to achieve our goals, the environment where we must operate, and the qualities, skills, and benefits the partner may bring to the development solution.

In cases where USAID has selected to partner with UNOPs, or another division of the United Nations, we have done so in order to provide the most responsive assistance available. In many locations, USAID may face limited implementing partner options due to insecure and volatile environments, which limits mobility and heightens security needs. As international bodies, PIOs allow us to meet immediate development needs because they may already have on-the-ground presence and/or a capability to conduct a multi-national effort, such as a host-country election.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Jerry Lewis (#1)
House Committee on Appropriations
March 4, 2010**

Question:

What assessments are being done to determine the post-disaster needs in Haiti and how is the Administration coordinating with other donors in developing a proposed response?

Answer:

The United States worked in collaboration with the European Commission, Inter-American Development Bank (IDB), United Nations (UN) and the World Bank on a Post Disaster Needs Assessment (PDNA). The results of the PDNA were incorporated into the Government of Haiti reconstruction and development strategy and the priorities of the Interim Haiti Recovery Commission will reflect those needs.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Jerry Lewis (#2)
House Committee on Appropriations
March 4, 2010**

Question:

How will you ensure the planning process of moving from an emergency response to longer-term recovery is carefully thought out and transparent in spite of the pressure there may be to move quickly?

Answer:

As we enter the recovery phase, the most immediate priority continues to be to save lives and protect vulnerable populations. Our recovery activities will continue to provide shelter, health services, food aid, water and sanitation, and jobs to those who were affected by the earthquake.

In the longer term, our focus will be on stabilization and economic growth. The Government of Haiti (GOH) has begun to articulate priority needs, and we support its plan to strengthen urban centers outside Port-au-Prince that will create jobs and diversify the economy. USG efforts are being informed by the Post Disaster Needs Assessment, which was recently completed by the GOH with international cooperation.

The USG is approaching the task of reconstruction and development in Haiti through a whole-of-government approach that leverages our resources strategically in ways that can have the greatest impact. We are coordinating closely with the GOH and other bilateral and multilateral donors, as well as with NGOs and the private sector. The USG will make strategic investments in areas and sectors where it can materially and systemically add value and generate results, with the core objective of assisting Haiti in building its own institutions and capacity.

As we move forward into the reconstruction phase, our long-term vision of success is that Haiti becomes a more stable nation that contributes to regional and hemispheric stability and security and is characterized by sustained democratic governance, reduced vulnerability to natural disaster, and new economically vibrant metropolitan centers.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Jerry Lewis (#3)
House Committee on Appropriations
March 4, 2010**

Question:

What “lessons learned” has USAID identified from its work after previous disasters, like the devastating tsunami a few years ago and Hurricane Mitch in the late 1990’s? Have you identified any lessons learned in this response?

Answer:

Following every major disaster, USAID’s Office of U.S. Foreign Disaster Assistance (USAID/OFDA) engages in an After Action Review (AAR) process to gather lessons learned aimed at improving systems and response effectiveness. AARs have served as the impetus for the development of some of USAID/OFDA’s core systems, including the Disaster Assistance Response Team (DART), Response Management Team (RMT), and Field Operations Guide.

Most system updates are prompted by recurring experiences during multiple disaster responses. As such, the links between disasters and systems updates may be the result of recommendations or experiences from several different disaster responses.

Following the 1985 earthquake in Mexico City, USAID/OFDA established agreements with U.S.-based Urban Search and Rescue teams to develop an operational international search and rescue response capability. The earthquakes in Turkey in 1986 and Armenia in 1988 led to the development of the DART concept. A DART is a team of disaster response specialists deployed to a disaster-stricken country to coordinate U.S. Government assistance in response to an international disaster, as mandated by the Foreign Assistance Act.

Hurricane Mitch in 1998 and the careful review of multiple previous AARs led to the development of the RMT. Prior to Hurricane Mitch, there were no organized, Washington-based procedures to coordinate interagency activities and support large-scale DART operations in the field. An RMT provides operational support to the DART and serves as the focal point for Washington-based coordination among USAID entities, the interagency community, Congress, and other key stakeholders.

The AAR process is still ongoing for Haiti. Several positive outcomes have been noted; however, some preliminary areas identified for improvement include:

- Procedures to determine which USG agencies are appropriate and the effective integration of those agencies into existing response structures can be strengthened to clarify their roles, functions, reporting relationships, and funding authorities.
- Some of the Urban Search and Rescue teams that were not familiar with the International Search and Rescue Advisory Group protocols experienced difficulty coordinating with response partners in the field.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Jerry Lewis (#4)
House Committee on Appropriations
March 4, 2010**

Question:

As the longer-term recovery and rebuilding strategy moves forward, how will USAID build in sufficient safeguards before contracts and grants are awarded? What types of monitoring and evaluation will be established?

Answer:

Going forward, we will be utilizing a procurement strategy that enables a swift response to meet emergency needs, while emphasizing competition, fairness, and accountability for results. For longer-term projects, we are committed to using full and open competitive procedures, with an emphasis on engaging local and new partners wherever possible. We intend to continue our outreach to the business community and to tap into the expertise of the Haitian Diaspora to encourage innovative approaches to development. In addition, U.S. foreign assistance efforts will focus on meeting small business engagement goals and will utilize the 8A set-aside program. Above all, we are committed to principles of fairness and transparency in our procurement process.

A representative from the Office of the Inspector General is embedded in the Haiti Task Team and will be embedded with the USAID mission in the field, allowing for concurrent audits. Externally, international financial institutions are working to set up a trust fund mechanism with strong financial oversight. We will not invest any funds into this or other mechanisms until we are confident of the adequacy and transparency of procedures and processes to account for the expenditure of funds.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Barbara Lee (#1)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

Global Fund

Question:

During yesterday's House Foreign Affairs Committee hearing at which you testified on the FY11 budget request, my colleague Congressman Donald Payne raised the issue of funding for the Global Fund, and more specifically the Administration's request to cut the U.S. contribution by \$50 million from FY 2010 levels.

I was pleased to hear you say that the Administration strongly supports the work of the Global Fund, and that you are seeking to get more value from dollars the United States spends on bilateral and multilateral global health programs.

With that in mind, what is the specific rationale for the proposed decrease in funding, particularly in light of the fact that we are able to leverage contributions to this fund with those of international donors at a rate of roughly 2-1?

The Administration's proposed cut would effectively result in the loss of \$150 million in additional program dollars for the Global Fund at a time when there is extreme demand for its innovative, country-driven approach to the fight against HIV/AIDS, TB, and Malaria (estimated funding needs of the Global Fund to meet demand in FY 2011 is \$5 billion).

Answer:

The Administration remains deeply committed to the fight against AIDS, tuberculosis, and malaria. Our financial contribution to the Global Fund and our support for Global Fund grant implementation and oversight on the ground are an integral part of our response to these three diseases.

The President's request of \$1 billion for contribution to the Global Fund is the largest request to date and an increase of \$100 million over the FY 2010 request.

The FY 2011 request of \$1 billion represents an increase of 11% over the FY 2010 request, as compared to an increase of approximately 3% for PEPFAR's bilateral request.

The U.S. government remains the largest donor to the Global Fund, having contributed more than \$4.3 billion since 2001. In addition to providing direct financial contributions to the Global Fund, we also provide significant support for Global Fund grant implementation and oversight through our bilateral programs and central funding. This country-level support is essential to the success of Global Fund grants.

Our FY 2011 request reflects the importance of providing direct financial contributions to the Global Fund, country-level support for Global Fund grant implementation, and the interplay between continued bilateral programming and the Global Fund. PEPFAR's bilateral programs and country-owned programs financed by the Global Fund are mutually supportive and reinforcing, with the success of each dependent upon the other. Both funding streams are critical to our ability to deliver results at the country level.

**Question for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Barbara Lee (#2)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

Minority Contracting/ Workforce Diversity

Question:

Back in 2007, I travelled with the Chairwoman Lowey of the State, Foreign Operations Appropriations Subcommittee on a congressional delegation to Morocco, Ghana, Liberia, Kenya, and Uganda. During that trip, as we went from one location to another, I noticed the absolute absence of minority personnel and contractors providing services for USAID.

The President's FY11 budget request continues USAID on the path to double the number of Foreign Service Officers through the Development Leadership Initiative.

Do you have any specific plans to support maximizing diversity in the workplace at USAID and improve the employment and advancement opportunities for women, minorities, and individuals with disabilities as we actively work to rebuild USAID's capacity and workforce?

Answer:

USAID is in the process of implementing a transition from a traditional Equal Employee Opportunity (EEO) office which primarily processed complaints to an Office of Civil Rights and Diversity (OCRD). The new OCRD will have a broader focus and a clear mission to impact the work environment of USAID in a positive direction with respect to diversity management and recruiting a workforce that looks like the rest of America.

Under the Development Leadership Initiative for the 469 new officers in Classes 1 – 11 for which diversity information was reported, women exceeded men overall, and the percentages of black and Asian women exceeded the National Civilian Labor Force

averages. Targeted recruiting efforts are underway to increase the intake of other categories of minorities.

It is axiomatic that visible, committed, and informed senior leadership is the foundation of any diversity effort. An effective plan will include an initial orientation of Senior staff – Senior Executive Service (SES), Senior Foreign Service (SFS), including non career leaders -- by consultants from Georgetown University. This will be followed by a Senior Officer Seminar Series which in time will involve the entire senior cadre and initiate new leaders as they come aboard. This approach has been piloted effectively in the Intelligence Community. Similar but not identical training will be delivered on a just-in-time basis for new managers, new supervisors, and new hires.

A new Executive Order will be released in weeks raising the ante significantly for all Government agencies to hire Wounded Warriors. OCRD hiring underway will include a 30 percent vet as a first new hire followed by an additional vet for another position. Once having modeled the practice and in conjunction with HR, OCRD will then initiate a campaign for Schedule A hiring throughout the agency.

Equal Opportunity Program operations made frequent use of collateral volunteer EEO Counselors for initial intake. Then contractors were engaged to conduct investigations and to do mediation. These practices led to inconsistent service, little staff learning and development, and the reliance on contractors was not cost effective. The hiring efforts currently underway will ensure that there will be a permanent cadre of experienced and seasoned EEO and diversity professionals with expertise in these critical areas - counseling, investigations and mediation.

Finally, Leadership Liaisons (SES, SFSO's) will be identified for selected Employee Affinity Groups. This is a *DiversityInc* industry best practice and an established method engaging top leadership support for diversity.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Barbara Lee (#3)
Subcommittee on Foreign Operations
Committee on Appropriations**

March 4, 2010

Small and Disadvantaged Business Goals

Question:

The USAID Office of Small and Disadvantaged Business Utilization (OSDBU) has been extremely helpful in working with my office to provide information on the Department's 2009 performance related to Small and Disadvantaged Business Goals. However, it is clear there is still a lot of work to do to reverse the stagnant results in recent years.

How do you plan to make this a priority of your Administration at USAID, and leverage existing or new policies into tangible results and improvements in performance? How can Congress assist in this regard?

Answer:

The Administration has a commitment to increasing the inclusion of new partners in our Mission. As required by statute, the Director, Office of Small and Disadvantaged Business Utilization (OSDBU) reports directly to the Administrator and is a member of the Agency's Senior Management Team.

We have also recently established a new Board of Acquisition and Assistance Reform (BAAR), chaired by the Director of USAID's Office of Acquisition and Assistance. The BAAR reviews all new solicitations over the Congressional Notification threshold for contracts and grants and provides guidance on whether those proposed actions should proceed as proposed or should be restructured to enhance competition, expand opportunities for small businesses and promote creative and innovative

approaches. The OSDDBU Director is a member of the BAAR. The review of contracts for use worldwide at this stage of the process allows us to ensure that consideration is given to the role of small business in the implementation of USAID programs.

We are leveraging our existing internal policy to ensure that small businesses are considered for Washington based support contracts. Each request must include the results of their market research and, if a small business set-aside is not recommended, an explanation as to why a small business will not be utilized.

We appreciate the Congress' support of our small business program and ask for your continued support of our efforts to expand the number and diversity of our partners.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Barbara Lee (#4)
Subcommittee on Foreign Operations
Committee on Appropriations**

March 4, 2010

Tracking Contracts to Small Businesses

Question:

I understand that the Department currently does not track any data on the rate of turnover for individual contracts, in other words the frequency with which contracts are awarded to the same entity year after year.

Wouldn't this type of information be useful for identifying opportunities for which Small, Disadvantaged, Women and Veteran-owned businesses might have been overlooked?

Answer:

USAID maintains a number of databases for management and evaluation of our awards which can supply the information we need to determine the rate of business a particular company, firm, non-governmental organization or other entity had or currently has with the Agency. USAID divisions also maintain information on prior contractors/grantees working by sector, such as implementing partners for education programs. The USAID Business Forecast—which is made available to the public online—also names the incumbent contractor when the Agency plans to issue a new competitive award for an ongoing USAID activity. We do not, however, maintain an official central system for tracking the rate of turnover on individual awards. The nature of the work being performed under the individual contracts is more important than the rate of turn-over for identifying potential contract opportunities for small and minority businesses.

USAID seeks expansion of its partnerships with small, disadvantaged, women-owned, and veteran-owned businesses through active measures, such as: ensuring that required small business market research is conducted during the planning phase of new acquisitions; inclusion of small business thresholds within programs; more small, disadvantaged, women and veteran-owned business set-asides; and reductions in the size of large awards.

To improve the way we do our business, USAID plans to engage in more rigorous outreach to small, disadvantaged, women and veteran-owned businesses. We have also formed the new Board for Acquisition and Assistance Reform (BAAR) which is examining ways to enhance competition, reduce large procurements and further expand opportunities for these businesses, beginning with FY 2010 procurements. Finally, our Office of Small and Disadvantaged Business Utilization (OSDBU) serves as a liaison and advocate for small, disadvantaged, and women- or veteran-owned businesses to ensure they have the tools needed to successfully work with USAID and to promote their capabilities within the Agency.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congresswoman Barbara Lee (#5)
Subcommittee on Foreign Operations
Committee on Appropriations**

March 4, 2010

Millennium Development Goals

Question:

The United Nations Department of Economic and Social Affairs indicates that as of June 2009, progress was either insufficient, absent, or deteriorating for more than half of key targets related to compliance with the United Nations Millennium Development Goals ("MDG's"). In Sub-Saharan Africa, one hundred percent of key targets fall into these underperforming categories.

Do you envision a renewed USAID tying its development work to meeting some or all of the Millennium Development Goals?

Answer:

USAID strongly supports the Millennium Development Goals (MDGs). We are committed to preserving and accelerating the momentum toward meeting the goals and helping ensure that development gains are sustainable.

Specifically, new Presidential Initiatives have been created in two key priority areas for the United States: food security and health. Both of these initiatives address critical priority areas for the MDGs including reducing hunger (MDG 1), reducing child mortality (MDG 4) and improving maternal health (MDG 5). Furthermore, these initiatives have incorporated the cross-cutting theme of gender integration, directly addressing MDG 3 on gender equality and the empowerment of women.

Following the L'Aquila G8 Summit in July 2009, the US proposed a \$3.5 million Global Hunger and Food Security Initiative, also known as Feed the Future, to address the challenge of chronic hunger. This initiative addresses the MDG 1 target of halving

the proportion of people living in extreme poverty and suffering from hunger between 1990 and 2015. USAID will focus on 20 countries globally to assist governments to develop and implement comprehensive food security strategies and investment plans.

In May 2009, the President also announced a six-year, \$63 billion comprehensive Global Health Initiative (GHI). Addressing MDGs 4 and 5 on reducing child mortality and improving maternal health, the GHI promotes a new business model for the USG to contribute to significant and sustainable health improvements through a country-led effort that stresses collaboration, health system strengthening and integration of services to serve the needs of women, newborns and children. While GHI will be implemented in 80 countries, USAID will focus special attention on GHI Plus countries (10 selected this year and another 10 selected 2013) with additional management, technical assistance (TA) and funds to accelerate progress and maximize learning about how we can do development better.

**Question for the Record Submitted to
Administrator Rajiv Shah by
Congressman Adam B. Schiff (#1)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

Malaria

Question:

The leading malaria vaccine candidate, RTSS, is now in the final phase of clinical testing in children and infants in Africa prior to submission to regulatory authorities. If all goes well, it could be ready for use in some countries in three to five years. What is the United States doing now to prepare for the resources and logistics which will need to be in place to incorporate the world's first malaria vaccine into the current malaria control programs? In particular, what planning is taking place to integrate this new control tool into the President's Malaria Initiative (PMI)?

Answer:

USAID is committed to supporting the development and implementation of an effective and safe malaria vaccine to add to the arsenal of malaria control interventions currently available.

RTSS is currently in a Phase 3 multi-center efficacy trial that should be completed in three years. In Phase 2 studies to date, the RTSS vaccine has shown 30-50 percent efficacy against severe forms of malaria, indicating that the goal of a 50 percent efficacious first-generation vaccine may be met by introduction of this vaccine.

Because introduction of the RTSS vaccine could take place within the next five years, USAID's Malaria Vaccine Development Program has funded, through the Malaria Vaccine Initiative at PATH (MVI), a process called the Decision-Making Framework (DMF). Led by a steering committee comprised of MVI, the World Health Organization, the Bill and Melinda Gates Foundation, USAID and others, the DMF developed a generic framework that maps the data and processes that stakeholders (ministry of health officials

and malaria control programs in Africa) will need to make before introduction of a malaria vaccine. USAID provided support to 10 African countries to initiate use of this framework to aid country-specific decision-making on potential malaria vaccine introduction; this process is continuing in additional countries.

The President's Malaria Initiative (PMI) is committed to scaling up proven interventions in support of countries' National Malaria Control Plans, with the goal of reducing malaria-related mortality by 50 percent. Once the WHO Global Malaria Program issues guidance on the use of the vaccine and countries include the new RTSS vaccine in their national malaria control plans, PMI will work with partner countries and other donors on plans for the vaccine's scale-up, as appropriate for each particular country setting.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Adam Schiff (#2)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

Pakistan

Question:

Like you and many others on the Hill, in the Administration and in the broader foreign policy community, I view Pakistan as absolutely central to the struggle against al Qaeda and the broader fight against extremist Islam.

My priority as a member of this subcommittee is to work on how best to use our diplomatic and aid resources to mitigate the toxic brew of poverty, a weak education system and anti-Americanism that makes Pakistan such a challenge.

I have spent much time wondering how to improve the efficacy of the aid that we send, especially now that we have significantly ramped up our commitment to Pakistan. I had the pleasure of sitting down a couple of weeks ago with a cross-section of the State – USAID team working on Pakistan. I have long felt, as does Ambassador Holbrooke, that funneling our aid through U.S.-based contractors diminishes its effectiveness, alienates Pakistanis of all political persuasions and obviates the kind of capacity-building that is vital to Pakistan's development. On the other hand, I am also aware of the difficulties involved in such an approach and have read Dr. Callison's Dissent Channel memo from last year.

What are your thoughts about the Holbrooke approach and about the capacity for Pakistani government and civil society groups to absorb and put aid monies to good use? Are there metrics that we can establish to measure effectiveness?

Answer:

As is consistent with best practices in international development, U.S. assistance will be directed increasingly through a broad range of Government of Pakistan institutions, as well as local non-governmental organizations (including the private sector) with the capacity to implement programs effectively and accountably. This approach will help increase host country ownership, and U.S. commitment to building a long-term partnership with the Pakistani government and people.

That said, we will not be stopping programs prematurely. No programs have been terminated. We realize that in some cases, we will need to rely on U.S. or international contractors in the short-term, as we continue to build up local capacity. For example, the ramp-up of large infrastructure programs will require a short-term increase in the need for architectural and engineering, monitoring and evaluation services, and other specialized U.S. - based experts. We will not channel funds through local organizations for which reliable monitoring, auditing and evaluation does not yet exist.

A part of USAID's assistance includes a focus on building capacity in Pakistani government institutions at the national, provincial and local level. The goal of such assistance is to reinforce the government's ability to provide security and economic opportunities for the Pakistani people, particularly in vulnerable areas.

We have already initiated the pre-qualification of Pakistani government and non-government organizations through pre-award surveys of their internal controls and administrative and financial management systems. USAID has also established a Memorandum of Understanding with the well-respected Government of Pakistan's Supreme Audit Institution to allow for the use of IG-approved local CPA firms, when required.

Aside from specific capacity building programs, we expect Pakistani officials to learn in depth about budget and program management best practices from technical and oversight professionals who will be on hand to help ensure that projects implemented through Pakistani institutions meet the required standards.

USAID tracks a number of indicators specific to its programs in Afghanistan and Pakistan. This tracking serves the dual purpose for active program management and reporting purposes. In

addition to those, the NSC is measuring contextual indicators of the effectiveness of USG policy in both countries.

A sampling of the indicators used by USAID include:

- power sector supply
- energy consumption savings
- daily power outages
- numbers of farmers accessing agriculture inputs, technical support, marketing support
- market penetration of microfinance and small business lending
- employment numbers
- tax revenues
- government allocations to social sector (health and education) expenditures
- secondary and primary education enrollment and attendance rates
- literacy rates
- vocational education graduation rates
- infant and maternal mortality rates
- percentage of mothers and newborns receiving care at birth
- public approval rates of public service delivery
- parliamentary oversight of executive programs
- civil society advocacy

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Adam Schiff (#3)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

Pakistan

Question:

If we do move to a system of disbursing more funds directly to Pakistani recipients, will we be able to get adequate access for U.S. government auditors and other officials to perform oversight?

Answer:

USAID's Office of the Inspector General has established an office in Pakistan and is staffing it with auditors and inspectors that will focus on auditing, monitoring and evaluating USAID/Pakistan's activities. USAID/IG will also coordinate with the U.S. Inspectors General and Government Accountability Office. In light of the shift in our business model in Pakistan, starting in FY 2010, USAID/Pakistan's Office of Financial Management (OFM) will initiate several new activities designed to ensure a high level of monitoring, evaluation and oversight of the Mission's overall portfolio. OFM will procure the services of Pakistani and U.S. CPA firms to conduct pre-award audits and oversight of USAID Pakistani and U.S. partners. U.S. CPA firms will be contracted to provide training to Pakistani CPA firms who will, in turn, provide training to the Pakistani institutions directly managing USAID activities. The Mission is also accordingly increasing its staff to add activity, financial and contracts managers to meet the increasing management burden and to ensure standard monitoring and evaluation responsibilities are not neglected. New staff will be added that will be responsible for oversight, monitoring and evaluation

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Representative Adam Schiff (#4)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Pakistan

Question:

The shift to funneling money through contractors has been accompanied by an erosion of capacity within USAID for doing the kind of development work which is necessary in Pakistan and in other key countries around the world. Some observers have advocated for an across-the-board reconstitution of these capacities within USAID. While I agree in principle that USAID should be able to do more of this work in order to build expertise, improve morale and do a better job at “branding” our assistance. Recently, it was suggested to me that USAID might use Pakistan as a test-bed for a more operational USAID. This would avoid having to commit the entire agency to a new direction, while allowing you to explore the feasibility of rebuilding these skills in one country – admittedly a very challenging one. Have you given this type of idea any consideration?

Answer:

USAID is always interested in examining new ways to deliver its assistance in Pakistan and throughout the world. Pakistan is a large country with many complex challenges that USAID must navigate in order to operate effectively. The issues that you raise are being examined through the Quadrennial Defense and Development Review, which I co-chair, and those findings will be made public later this year.

In response to our increasing portfolio in Pakistan we are beginning to increase our U.S. direct hire staff in the country. These individuals will focus on areas surrounding activity management; contracts and financial oversight.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Adam B. Schiff (#5)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

Emission Reduction

Question:

How will USAID program FY 2010 funds to create a coherent emission reduction program in the forest sector that builds needed expertise efficiently, helps develop and spread appropriate standards and best-practices in conformity with U.S. climate diplomacy, and keeps new tropical forest programs closely aligned with rapidly evolving multilateral and bilateral climate change initiatives?

Answer:

The overall objective of the sustainable landscape pillar is to help developing countries transition from current trends of rising emissions from deforestation and forest degradation to a future in which emissions levels are dramatically reduced and sustained, while supporting livelihoods and economic growth. Reducing emissions from deforestation and degradation, including conservation, sustainable management of forests and enhancement of forest carbon stocks ("REDD-plus" in the Copenhagen Accord), involves a complex set of interactions, including reforming economic factors that drive deforestation and land use change. To support implementation of the Accord and create a focused emissions reduction program for the forests sector, USAID will assist developing countries prepare Low Carbon Economic Growth Strategies, improve capabilities to measure, monitor and report greenhouse gas inventories, and improve forest monitoring and management including transparency in the interest of preparing for emerging carbon markets.

USAID is currently engaged in a dynamic strategic planning process that will develop Agency-wide global climate change goals, objectives and indicators to measure progress and

impact. This work refines the initial analyses developed over the past two years, and will reflect emerging priorities. USAID has consulted with a number of stakeholders and has incorporated this input into our framework.

USAID's bilateral programs are aligned with USG investments to be implemented through mechanisms such as the World Bank Forest Carbon Partnership Facility and the World Bank Forest Investment Program. USAID and the Department of State have developed a strong mutual understanding of diplomatic and development priorities. Collaboration and coordination between these USG Agencies on the international climate change agenda, in general, and Sustainable Landscape activities, specifically, will allow the USG greater leverage and impact.

Further, USAID has developed training and tools to guide missions in programming to attain overarching goals and ensure a cohesive, focused bilateral landscape program. In house expertise in land use planning, forestry and carbon emissions is helping to guide mission programming for these new activities. Top priorities include development of: 1) national level accounting of greenhouse gas emissions (GHGs); 2) low emission development strategies; and 3) market readiness for REDD+. The Agency is establishing appropriate standards and best-practices related to these three areas.

Support for national level accounting of greenhouse gas emissions includes harmonization of methods for forest carbon inventories and establishment of credible systems and capacity with host governments for GHG inventories and reporting. Expansion of SERVIR – Regional Visualization and Monitoring System hubs to new regions will build national capacity and support GHG inventories and accounting and forest management and monitoring. Establishment of best practices and dissemination of internationally accepted methodologies for carbon inventories will add credibility to national systems and attract REDD+ markets.

Low Emission Development Strategies (LEDS) are supported across all the GCC funding pillars. For Sustainable Landscapes, national strategies will grapple with trade offs between expansion of agricultural land and forest cover. SERVIR hubs will provide tools for forest cover analysis and monitoring and data for analysis on drivers of deforestation and degradation. Landscape based pilot programs linked to national strategies will provide feedback on those strategies and incentives for expansion to larger scale implementation. A web-based forest carbon calculator will allow USAID missions to report back to Congress on carbon dioxide emissions avoided.

Market readiness for REDD+ requires credible GHG inventories, a country level LED strategy, and credible monitoring, verification and reporting. It also requires clear tenure rights related to carbon. USAID bilateral missions will support training of key national stakeholders in REDD+ issues and wide participation of civil society in national discussions on REDD+ markets so that LED strategies have wide civil society support and appropriate incentives for successful protection and management of forest carbon stocks.

USAID is supporting a whole of USG approach through the following activities: 1) USAID and Dept of State representation on the board of the World Bank Forest Carbon Partnership Facility (WB FCPF); 2) Missions will be aware of and complement on-going in-country activities related to the WB FCPF to accelerate the process and link any sub-national activities to overarching country level strategies; 3) USAID's partnership with the US Environmental Protection Agency (EPA) and the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat will facilitate improving developing countries' national greenhouse gas inventory systems and institutions through regional programs.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Adam B. Schiff (#6)
Subcommittee on Foreign Operations
Committee on Appropriations
March 3, 2010**

Forest Sector Emission Reduction Program

Question:

When will USAID make the strategic framework and programs details for the forest sector emission reduction program available to Congress and stakeholders?

Answer:

USAID is preparing a strategic framework and program details for the forest sector emission reduction program. The Agency has already held preliminary consultations with Congress and some stakeholders. This more developed framework will be shared with Congress and other stakeholders by the end of the calendar year, and will reflect additional analysis, planning and consideration of evolving political priorities.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Adam B. Schiff (#7)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

Biodiversity Funding

Question:

In specific numerical terms what portion, if any, of the FY 2010 funding and requested FY 2011 funding will count toward the administration's Copenhagen pledge on forests but will come from existing forest and climate-related programs, such as the Congo Basin Initiative, Tropical Forest Conservation Act and general biodiversity funding?

Answer:

In FY 2010, USAID is supporting \$74.45 million of direct funding for sustainable landscapes investments as part of the overarching global climate change initiative. In addition, USAID estimates that an additional \$77 million of indirect funding will have co-benefits for sustainable landscapes goals through reduced or avoided emissions. These programs have a biodiversity focus, but will also conserve important carbon stocks, and thus support the Administration's Copenhagen pledge on forest conservation.

For FY 2011, USAID has not yet completed an analysis of potential indirect funding for sustainable landscapes. The Agency will be completing these analyses later this year.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Ander Crenshaw (#1)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Haiti

Question:

While there is no shortage of money pledged for rebuilding, many challenges I know remain for the United States and our efforts in Haiti. Is there a single fund that has been created to manage all the resources collected? If yes, what is the status of the fund's establishment, and how are resources being coordinated from the fund? If not, is a single fund the best way to manage all of these pledges?

Answer:

During the March 31 UN Donors' Conference in New York, the international community agreed to establish a Haiti Reconstruction Fund, for which the World Bank will act as Fiscal Agent, to channel significant assistance resources more effectively and to enhance coordination.

There are advantages and disadvantages to both the single and multiple fund models. A single fund allows for closer coordination of reconstruction activities and greater flexibility but there is a possibility early recovery efforts may be underfunded while the fund is set up. A multiple window model could potentially be set up more quickly by leveraging existing agreements among donors and UN agencies, but could negatively impact coordination and flexibility.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Ander Crenshaw (#2)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Haiti

Question:

There seems to be a tremendous international effort to assist in Haiti. Are these efforts being coordinated by one entity? What role will the international community play in helping the government of Haiti rebuild?

Answer:

Multiple bilateral and multilateral mechanisms are being utilized to facilitate donor coordination, both at headquarters and on the ground. On the ground, donors coordinate bilaterally and through the UN Cluster System. At a headquarters level, the USG collaborated closely with key bilateral donors - Brazil, Canada, France and Spain - and multilateral institutions such as the EU, IMF, IDB, UN and World Bank—during the recent United Nations Donors’ Conference in New York. There, the international community in total—59 countries and international organizations—pledged \$5.3 billion for the next 18 months and \$9.9 billion over the next three years and beyond.

It was also announced at the Donors’ Conference that a new authority called the Interim Haiti Recovery Commission will be created to manage donor funds and reconstruction efforts. The Commission will be co-chaired by UN Special Envoy to Haiti Bill Clinton and Haitian Prime Minister Jean-Max Bellerive and will include a mix of local authorities and international donors. After 18 months, this commission will give way to a Haitian-led Haitian Development Authority (modeled on the reconstruction

agency created in Aceh, Indonesia following the 2004 tsunami), which will assume coordination of reconstruction activities.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Ander Crenshaw (#3)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Haiti

Question:

What is the current ability of the Haitian government to stand up and partner in these efforts?

Answer:

Government of Haiti capacity is certainly factored into our strategy. A key guiding principle of the USG strategy in Haiti is that the ultimate responsibility for rebuilding the country rests in the hands of the sovereign nation of Haiti and the Haitian people. It is our responsibility to see that U.S. Government resources spent towards accomplishing the reconstruction of Haiti are effectively managed, and transparently administered with proper oversight while we are helping Haiti to rebuild.

At the recent UN Donors' Conference, it was agreed that the Interim Haiti Recovery Commission (IHRC), co-chaired by Bill Clinton and Haitian Prime Minister Jean-Max Bellerive, would play a lead coordination role over the next 18 months. The President of Haiti will retain veto and approval power over the recommendations of the IHRC. After 18 months, the new Haitian Development Authority will assume that coordination role for the longer term rebuilding efforts.

At the same time, the international community committed to assist in building the capacity of the Haitian government, which suffered devastating losses. The USG and

other donors are working with the Government of Haiti to establish technical assistance programs for various ministries.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Ander Crenshaw (#4)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Haiti

Question:

What oversight provisions have been put in place to ensure that donations - both public and private—have some transparency and accountability?

Answer:

In coordination with the Government of Haiti and UNDP, the UN Office of the Special Envoy for Haiti is developing an aid management system to track overall assistance flows and manage development projects with the Ministry of Planning and External Cooperation. This system became operational following the March 31, 2009 Donors Conference.

To ensure accountability, the Interim Haiti Recovery Commission will have an independent auditing, results-based management and national planning and communications platform which reviews and reports out on donations.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Ander Crenshaw (#5)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Haiti

Question:

Will the United States and other international players sustain the reconstruction effort in Haiti for the long term?

Answer:

USAID worked with the Department of State and the Office of Management and Budget (OMB) to prepare a Supplemental Request for additional assistance funds for Haiti reconstruction. This request was submitted to Congress on March 24. If enacted, the Supplemental funds will be spent over a period of 5 years.

The recovery program will continue to cover the remaining urgent shelter, health, livelihoods, food aid, and water and sanitation needs of Haiti's most vulnerable populations as it transitions to long-term sustainable development.

We will maintain a robust, long-term commitment to stay with the government and people of Haiti to be successful in the future. Our vision for Haiti encompasses not just the next few years, but also the next few decades. We are taking a hard look at how we can help Haiti build back better.

We intend to support this vision, focusing on building Haiti's own institutions and capacity. We will focus on areas and sectors where we can add the greatest value. These include:

- Expanding agriculture and infrastructure

- Improving security
- Extending access to electricity and renewing the environment
- Supporting sustainable healthcare
- Strategic investments in governance and housing

The challenges faced by Haiti are enormous. While a long-term response to the earthquake requires a vast array of investments, the United States cannot and will not do everything. The U.S. must embrace the opportunity presented by the broad array of countries, multilateral institutions, non-governmental organizations (NGOs), private sector and other stakeholders who seek a better future for Haiti. To date, the United States has coordinated and partnered with Haiti's other key donors – Brazil, Canada, the European Union, France, Spain, the World Bank, and the Inter-American Development Bank – and all parties are working to leverage every possible dollar for matching private sector dollars. At the March 31st UN Donors' Conference, bilateral and multilateral donors demonstrated a commitment to long-term reconstruction and development efforts by pledging \$5.3 billion for the next 18 months and \$9.9 billion over the next three years and beyond.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Ander Crenshaw (#6)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Haiti

Question:

What assessments are being done to determine the post-disaster needs in Haiti and how are you coordinating with other donors in developing a proposed response?

Answer:

The US worked in collaboration with the European Commission, IDB, UN and the World Bank on a Post Disaster Needs Assessment (PDNA). The results of the PDNA were incorporated into the Government of Haiti reconstruction and development strategy and the priorities of the Interim Haiti Recovery Commission will reflect those needs.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Ander Crenshaw (#7)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Haiti

Question:

Have any overall numbers for the reconstruction been determined at this point? If so, can you explain the numbers and how those resources will be used.

Answer:

The Post Disaster Needs Assessment estimated the total value of damage and losses caused by the January 12th earthquake at \$7,863 million, and the total needs for rebuilding at \$11,487 million. The Supplemental Request for Haiti Reconstruction, submitted to Congress on March 24, includes \$1.641 billion for State and USAID, of which Foreign Assistance totals \$1.245 billion and Food for Peace \$150 million). As summarized below, approximately \$501 million of the requested funds will be used to partially reimburse USAID for emergency humanitarian response expenditures already made. Approximately \$894 million is slated for State Department and USAID recovery and reconstruction activities, as well as oversight expenses for the USAID Inspector General.

Relief Funding: \$501 million. These funds will reimburse Department of State and USAID accounts for the post-earthquake relief effort to date.

- International Disaster Assistance - \$351 million

- Food for Peace Title II - \$150 million (emergency food assistance for up to two million Haitians).

Recovery and Reconstruction Funding: \$893¹ million. These funds will help address Haiti's critical recovery and reconstruction needs.

Economic Support Fund - \$749 million

- Office of Transition Initiatives Recovery Activities - \$68 million.
- Infrastructure - \$433 million
- Health - \$110 million
- Agriculture and Food Security - \$51
- Governance, Rule of Law and Security - \$87 million
 - Public Institutions and Civil Society - \$62 million
 - Justice Reform and Human Rights - \$25 million.

Effectiveness, Accountability and Oversight: \$1.5 million USAID Office of the Inspector General

¹ Of which: International Narcotics Control and Law Enforcement - \$143.5 million

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Ander Crenshaw (#8)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

Haiti

Question:

Based on the success of this type of permanently stationed liaison officers, have you considered permanently stationing a USAID officer at 4th Fleet headquarters? So much of SOUTHCOM's work is humanitarian based and I believe this permanently stationed liaison officers will be helpful both for long term projects and humanitarian crisis. What are your thoughts on this?

Answer:

USAID provides permanent representation at U.S. Southern Command (SOUTHCOM) in the form of a Senior Development Advisor and two USAID Humanitarian Assistance Advisors. These representatives advise SOUTHCOM senior leadership and staff on USAID programs and conduct regular training in order to promote joint planning and improve strategic coordination of DOD humanitarian assistance activities. The USAID advisors also reach out to and are available to consult with SOUTHCOM's component commands, including the U.S. Navy's 4th Fleet.

USAID has had a permanent humanitarian assistance advisor based at SOUTHCOM since 2000. At the height of the Haiti response, the USAID team expanded to 4 staff, to meet the 24/7 demand for civil/military coordination and information management at the military headquarters level.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Representative Ander Crenshaw (#9)
Subcommittee on Foreign Operations
Committee on Appropriations
March 4, 2010**

FATA

Question:

A recent audit – entitled “Audit of USAID/Pakistan’s Capacity Building for the Federally Administered Tribal Areas (FATA) Development Program,” revealed several negatives with respect to USAID’s progress on programs in the FATA region in Pakistan. In light of this report, can you share with the Subcommittee your thoughts or comments on the report and on USAID’s ability to program funds in Pakistan?

Answer:

This audit concluded the program has “not yet achieved the goal.” The audit was conducted in year two of a three year project, which is not slated to end until December 2010. The audit reports that some progress had been made, while certain specific objectives have not been completed. USAID/Pakistan agreed with the audit’s four recommendations, and has already taken action on all of them.

It is important to keep in mind that this program is being implemented in one of the most dangerous places in the world. While USAID/Pakistan strives to ensure timely and consistent implementation of activities on the ground, coupled with sufficient oversight of U.S. taxpayer funds, security of our partners and our recipients is foremost.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Ander Crenshaw (#10)
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

Pakistan Supplemental

Question:

It is my understanding that USAID has more than a billion dollars in the pipeline for Pakistan and the Administration has requested additional funds in the FY10 supplemental. How do they plan to spend existing funds wisely, especially in light of the negative reports that exist? Is there a need for a supplemental and if so, why?

Answer:

USAID has taken action on the recommendations made by recent audit reports.

USAID/Pakistan adheres to standard procedures in the monitoring of its activities,

consistent with US regulations to ensure accountable use of U.S. foreign assistance:

- Ensuring implementing partners maintain accurate and constructive performance management plans and that they report quarterly on their progress.
- In addition to individual attention provided to activities by activity managers, the contracts office, the program office and the office of financial management, USAID/Pakistan conducts annual reviews of all its activities which are reported to the Embassy and senior Agency management.
- Activity managers and implementing partners regularly perform spot checks of activities to ensure progress is going according to plan.

Moving forward, USAID/Pakistan is institutionalizing a number of additional tools to ensure proper monitoring and evaluation of USG funds.

- The Mission is increasing staff levels to add activity, financial and contracts managers to meet the increasing management burden and to ensure adherence to standard monitoring and evaluation responsibilities.
- Starting in FY 2010 USAID/Pakistan's Office of Financial Management (OFM) began the management of new activities designed to ensure a high level of monitoring, evaluation and oversight of the Mission's overall portfolio. OFM will procure the services of Pakistani and U.S. CPA firms to conduct pre-award audits and oversight of USAID Pakistani and U.S. partners. U.S. CPA firms will be contracted to provide training to Pakistani CPA firms who will, in turn, provide training to the Pakistani institutions directly managing USAID activities.

We submit supplemental funding requests in order to respond to urgent needs that were not previously contemplated during the development of the base budgets. Water, agriculture, and energy are the primary focus of our FY 2010 supplemental request and are new, urgent priorities of the Government of Pakistan and the U.S. Government civilian assistance strategy in Pakistan that were not factored into the development of the FY 2010 base budget.

The estimated pipeline in our assistance to Pakistan as of the end of December 2009 is \$1.127 billion. Funds are being expended at \$47.7 million per month - a substantial increase from the previous quarter (\$29.2 million per month).

USAID/Pakistan is on track to increase its monthly expenditure rate to nearly \$71 million by the end of the second quarter of FY 2010. This will decrease the number of months of forward funding (current pipeline plus FY 2010 appropriation and Supplemental request) to 26. We anticipate increasing the expenditure rate further by June 2010 to \$125 million

per month and maintaining this burn rate through the end of FY 2010, which would reduce the number of months of forward funding to 19.

In working through the GOP, USAID plans to, where appropriate, use Fixed Amount Reimbursable Agreements. This mechanism requires that funding is carried in the pipeline to ensure it is available for disbursement at the project's completion. This approach is frequently used in infrastructure activities.

**Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Steve Israel
House Appropriations
Subcommittee on Foreign Operations
March 4, 2010**

Cyprus

Question #1:

Administrator Shah, the on-going division because of the continuing Turkish military occupation of Cyprus presents a unique situation that warrants a level of scrutiny concerning the provision of United States assistance that goes beyond that which is required for other countries.

Indeed, in recent years, there have been concerns in Congress regarding the lack of transparency related to the uses of this funding on the island. According to the Government of the Republic of Cyprus, officials in Nicosia have several times sought advanced notification of the expenditure of USAID funds in Cyprus. I'm told USAID has not been willing to provide these notifications. No one wants another government to have veto authority over how US funds are spent, and I certainly don't either, but we also don't to behave in a way that undermines the goodwill we're trying to create with these efforts.

In light of Congressional concern about lack of transparency and advanced notification from USAID to the Government of Cyprus, can I have your commitment that USAID will make an effort to provide prior notification to the Government of Cyprus about the use of U.S. funds in Cyprus in the future?

Answer:

The foreign assistance program in Cyprus is unique and USAID takes it very seriously.

The U.S. is committed to consultation and transparency with the GOC on our foreign assistance program. USAID has and will continue to offer advance notification about the obligation and use of funds in Cyprus, provide full information on all projects, and be sensitive to recognition, property concerns, and other issues raised by the GOC. Likewise, we will continue to consult with and be sensitive to the concerns of the Turkish Cypriot community.

THURSDAY, MARCH 25, 2010.

**U.S. DEPARTMENT OF THE TREASURY INTERNATIONAL
PROGRAMS**

WITNESS

HON. TIMOTHY F. GEITHNER, SECRETARY OF THE TREASURY

OPENING STATEMENT OF CHAIRMAN LOWEY

Mrs. LOWEY. The subcommittee on State, Foreign Operations, and Related Programs will come to order.

Mr. Secretary, my former constituent—where do you vote? Here or Westchester? We will have to figure this out.

I welcome you to the subcommittee to present the Treasury Department's request for fiscal year 2011 international programs. The budget request includes \$3.1 billion for U.S. contributions to international financial institutions, debt relief, technical assistance programs, a \$1 billion or 33 percent increase above the fiscal year 2010 level. The requested \$1.073 billion for development funds at the World Bank includes \$635 million for the Clean Technology and Climate Change Strategic Funds, and \$438 million for Food Security and a new Multilateral Food Security Fund.

I believe the significant increase will be difficult to fund at a time when we face severe domestic budget constraints, large deficits, high unemployment, all in the midst of two wars. Your perspective on how U.S. contributions support our national interests is important as this committee prepares to make tough funding decisions. It is critical to leverage every cent of taxpayers' dollars and demonstrate that it is being spent effectively and efficiently. I hope you can share with us reform priorities for each of the institutions and actions underway to provide greater transparency and accountability including program effectiveness measures at the IFIs.

There are a number of key issues that I would like you to address. First, coordination on key U.S. priorities, including poverty reduction, economic growth, food security, climate change, the environment, debt relief, and technical assistance. How are these programs coordinated within the U.S. government among bilateral and multilateral organizations and on the ground? I am especially interested in the new food security trust fund and the climate investment funds administered by the World Bank. How will Treasury coordinate with State and USAID? Who has the lead within the U.S. Government? Why was the decision made to house these funds at the World Bank? And will we have enough oversight of implementation?

As the number of funds based in Western capitals grow, civil society groups must be involved to ensure the voices of those most affected by IFI programs and lending are heard. What is Treasury

doing to get maximum and meaningful participation from civil society within these new funds?

The World Bank has been deeply involved in post-conflict, fragile and failed states, and I hope you will explain the role of multilateral development banks (MDBs) in front-line states and other priority countries, including Afghanistan, Pakistan, Iraq, and Haiti. For several years this subcommittee has raised concern about the World Bank's administration of the South Sudan Trust Fund and the slow disbursement of funds due to severe capacity constraints. What is the status of this Trust Fund?

Lastly, while the U.S. shares decision-making with other countries and multilateral banks, we maintain tremendous influence. As you know, certain lending decisions have major impact on Congress's support for the Banks, and at the top of the list of concerns is Iran. This subcommittee is deeply troubled that the World Bank made a number of loans to Iran between 2004 and 2005 that are still being disbursed. Although these loans were for humanitarian and development purposes and were therefore legal under UN Security Council resolutions, we remain concerned that funding continues to be disbursed to a country that carries out repressive and dangerous policies that negatively impact Iran's own people, the region, and the world.

It is absolutely essential that the World Bank Group not re-engage in lending to the current government of Iran if it is to maintain credibility and future U.S. support. I have urged Ambassador Rice to ensure the next UN Security Council resolution does not allow a loophole for development lending to continue to Iran. Nevertheless, in the absence of a new resolution prohibiting development funding, there should be no excuse for the World Bank to finance development loans to Iran while the regime continues to fund their nuclear weapons activities and support terrorist organizations.

While we are discussing Iran, I would like to commend the excellent work Under Secretary Stuart Levey has undertaken. The February 10 announcement of sanctioning Iran's Islamic Revolutionary Guard Corps (IRGC) is just one clear example of his aggressive efforts, which I applaud, and I know this view is shared by this committee.

Mr. Secretary, our discussions today on these important institutions for the United States interests and many other key issues will impact our funding decisions. We look forward to working with you. And before we move to your testimony, let me turn to Ms. Granger, the Ranking Member, for her opening statement.

Ms. Granger.

OPENING REMARKS OF MS. GRANGER

Ms. GRANGER. Thank you, Madam Chairman.

I would like to welcome the Secretary for his first appearance before the subcommittee today to discuss the fiscal year 2011 request for the Department of the Treasury's International Programs. Additionally, I would like to hear about the current status of the International Monetary Fund, given the large level of funding approved last year by Congress.

Secretary Geithner, I understand that several years you were the Assistant Secretary and then Under Secretary of the Treasury for International Affairs. Therefore, these programs under this subcommittee's jurisdiction are certainly familiar to you, and I look forward to our discussion.

The President's budget request is \$3.1 billion for Treasury's International Affairs Program, which is an almost 44 percent increase or \$396 million over last year. I would also like to highlight that this is a near doubling of funds in 2 years. All of these funds are contributions to international financial institutions with the exception of the Treasury Technical Assistance and Debt Relief Programs. I hope you can explain why we need such a large increase for multilateral assistance when our bilateral assistance programs are coming under tighter constraints as this country continues to dig out from economic crisis.

Additionally, my support for this request is in doubt when it is unclear to me how much influence the United States has over the allocation of the appropriated dollars we contribute each year to these banks. Specifically, I am concerned about corruption at the banks and how bank leadership is attempting to rein it in. I also fear the decreasing relevance of these institutions as we observe many long-term recipient countries that are stagnating and not progressing even after billions of dollars of multilateral assistance.

It seems surprising to me that, given all the doubts that this Congress has about the functioning of the World Bank and the regional banks, the administration has committed billions of dollars in Climate Change Fund and Food Security Fund in the last year, much of which will be deposited at the World Bank. And just this past weekend Treasury agreed to a sizable multiyear capital increase to the Inter-American Development Bank and is in the progress of negotiating several others.

Before this Congress is asked to provide substantial capital increases, I hope we will be provided convincing evidence that the taxpayer dollars will be used more effectively in the future than they have been in the past at these institutions. While so many countries are languishing in poverty ruled by corrupt governments and often subjected to civil strife, I would hope that the multilateral development banks could find a way to promote positive economic and political change in these countries. Otherwise, nothing changes except greater wealth transfers from the developed to the developing world.

Secretary Geithner, I hope your testimony today can alleviate my concerns that, with respect to the Treasury request, the administration is out of touch with the fiscal realities of this Nation. As you know, Mr. Secretary, I am a supporter of using U.S. foreign assistance as a soft power tool to achieve our national security objectives as well as promote the quality of life for those living in hunger and poverty. However, I believe that our role in this subcommittee through rigorous oversight is to make it work better at achieving our goal. I thank you, and I look forward to your testimony.

Mrs. LOWEY. Mr. Secretary, as you know, your full statement can be placed in the record, so you may summarize if you wish. Please proceed.

OPENING STATEMENT OF SECRETARY GEITHNER

Secretary GEITHNER. Thank you, Chairwoman Lowey and Ranking Member Granger, members of the committee.

It is a pleasure to be here before you today. Thank you for those opening statements, very thoughtful statements, and I agree with the basic imperative you have laid out, which is for all of us to recognize we have a huge stake in what happens outside the United States. We also share a great obligation to make sure the resources we provide these institutions in support of the development, et cetera, are used as effectively as possible.

I want to thank you for the support you have given these institutions, the Treasury, the foreign assistance budget over the years in recognition of those interests, and we look forward to working with you closely in the coming months to build on that record of cooperation.

As you know, our international programs are guided by four basic priorities: The first is to support economic growth here at home and abroad. The second is to protect our national security interests. Third is to lift the lives of the world's poorest. And the fourth finally is to promote global solutions to address climate change and other global problems. Our budget request supports these key goals.

At their core the multilateral development banks, the MDBs, strengthen private sector-led growth and help integrate developing nations into the global economy. By helping these countries stabilize and grow, we build new markets for U.S. exports and help create more jobs here at home.

At no time has the importance of the MDBs been more evident than during the financial crisis. These institutions acted with our encouragement with exceptional speed and force to help cushion the effects of the crisis on the poorest and to help restart flows of finance and restart the flow of global trade.

Treasury's initiatives also help support frontline states vital to our national security interests. Last year, for example, the MDBs provided \$543 million in grants to Afghanistan and \$3.35 billion in assistance to Pakistan.

Our Office of Technical Assistance at Treasury complements these efforts by strengthening the financial management of governments around the world. Treasury, for example, helps the Afghan government develop a financial intelligence unit that helps prevent money laundering and terrorist financing.

Of course, we support these institutions not just to support our own national security and economic interests but also to defend our ideals as a nation. More than 1 billion people around the world suffer from chronic hunger. At the G-8 summit in Italy last year, President Obama pledged greater U.S. focus on reducing global hunger and extreme poverty. And as part of that, we are proposing to increase investments in agricultural development and food security, including through a new multilateral trust fund for food security.

I want to express my appreciation for the strong support of so many members of this committee for our work to relieve Haiti's debt burden following the earthquake, and I urge all of you to sup-

port the supplemental the President submitted to Congress yesterday. In parallel with your efforts, just this past weekend, we reached agreement with other IDB, Inter-American Development Bank, shareholders to cancel all of Haiti's \$479 million debt to that institution.

Climate change of course is a global challenge, and that demands a global solution. We are doing our part here at home with a sweeping set of investments in clean energy and technology to help promote energy efficiency, but we can't solve this problem on our own. And our budget request, therefore, will support efforts to help reduce greenhouse gas emissions globally.

Now, in order for the World Bank and the regional development banks to fulfill their missions in each of these priority areas, we ask you to fully fund our budget request. Our request represents just 5 percent of the total international affairs budget. And because our dollars are not only matched by other donors but used to generate significant additional resources in the capital markets, you get quite a lot of bang for the buck. In fact, every dollar the U.S. has contributed to the World Bank enables lending levels that are about 250 times that.

Our focus on resources of course will be matched by an insistence on stronger reforms, stronger results in four critical areas. We are working to put in place much more disciplined financial practices to improve governance and management to increase transparency and accountability and to narrow the focus of institutions on core priorities that have the highest return.

Now, to support continued progress in these reforms, we need to stay engaged in these institutions. As you know, our ability to shape these institutions, to shape what they do, how effective they operate rests on being a member in good standing which pays its fair share.

Now, as you both recognize and as we recognize, we make these requests in the context of one of the most challenging economic environments for Americans in generations and with our Nation facing severe fiscal constraints, but we make it with the confidence that these investments will contribute to building a stronger global economy and promoting our national security interests.

There is a long history of bipartisan support for these initiatives, not just on this committee. As President Reagan said, quote, These institutions have reflected a shared vision of growth and development through political freedom and economic opportunity. That vision has become a reality for many of us. Let us pledge to continue working together to ensure that it becomes a reality for all.

I look forward to working with you and being as responsive as I can to your questions. Thank you.

[The information follows:]

EMBARGOED UNTIL DELIVERY

1:30 p.m., Thursday, March 25, 2010

Secretary of the Treasury Timothy F. Geithner
Written Testimony before the House Committee on Appropriations
Subcommittee on State, Foreign Operations, and Related Programs on the Fiscal Year
2011 International Programs Budget Request

Chairwoman Lowey, Ranking Member Granger, and Members of the Committee, thank you for the opportunity to discuss the President's Fiscal Year 2011 Budget Request for the Department of the Treasury's International Programs. There has been a long history of bipartisan support for American leadership on these programs and that support has brought substantial achievements in reducing poverty, implementing reforms, and fostering economic growth around the world.

As President Obama noted in his State of the Union address, America's destiny is connected to the welfare and security of those beyond our shores. Our strategy for renewing American leadership is guided by four enduring priorities: 1) supporting economic growth at home and abroad; 2) protecting our national security interests; 3) lifting the lives of the poorest; and 4) promoting global solutions to address climate change and other transnational challenges.

The focused investments contained in Treasury's Budget Request support these key goals.

Supporting Economic Growth

At their core, the multilateral development banks (MDBs) are designed to that support private-sector-led growth and integration into the global economy. U.S. investments in these institutions support efforts to develop property rights and the rule of law, strengthen financial systems, and promote strong institutions, which support the broader objective of expanding economic growth—at home and abroad.

By helping developing nations stabilize and grow, we build new markets for U.S. exports and create jobs here at home. We provide the seeds for private sector development, entrepreneurship, and innovation. Our investments in the MDBs help generate new engines of growth that benefit the U.S. economy and the global economy, as a whole.

At no time has the importance of this central mission of the MDBs been more evident than during the recent financial crisis. The MDBs acted with exceptional speed and force to cushion the poorest from the worst impacts of the crisis and help restore liquidity for world trade flows. At a time when few institutions were lending, their decisive actions, including \$222 billion in financing, were critical to global stabilization efforts and are a fundamental part of the reason we are now seeing signs of economic growth. The MDBs helped more than 130 countries, representing 44 percent of the world economy, and 31 percent of America's export markets. In Africa, the world's poorest continent, the African Development Bank more than tripled its lending in 2009 and provided \$8.5 billion in assistance. In Eastern Europe, which suffered a severe recession during the crisis, the European Bank for Reconstruction and Development increased its investments by 50 percent, to \$11.8 billion, helping to avert an economic depression.

EMBARGOED UNTIL DELIVERY
1:30 p.m., Thursday, March 25, 2010

Developing the Private Sector

Ultimately, sustainable growth must be led by the private sector. That is why the United States has long been committed to fostering private sector development through its leadership of the MDBs. From improving access to financial markets to building the capacity of entrepreneurs and providing training, efforts to support a strong and dynamic private sector will fuel sustained growth in developing economies and will also help open markets for American businesses and workers.

We have pressed the MDBs to focus on fostering a strong environment for private sector development, with notable results. The Asian Development Bank is working to triple its private sector lending so that it represents at least 50 percent of its portfolio. And the United States has asked the International Finance Corporation, which finances private sector investment as part of the World Bank Group, to increase its focus on the poorest countries, with those activities now representing over 40 percent of its portfolio. These efforts are critical to generating employment opportunities, stronger investment, better access to finance, and improved corporate governance.

Supporting National Security Objectives

The second core U.S. priority supported by Treasury's International Programs is the stabilization of frontline states vital to national security, such as Afghanistan, Pakistan and Iraq. Through our investments in the MDBs, through debt relief, and through our group of civilian advisors in finance ministries and central banks around the world, our programs directly bolster U.S. national security objectives every day.

The World Bank and the regional development banks have been our partners in reconstruction and economic rebuilding in countries vital to U.S. national security, providing \$543 million in grants to Afghanistan and \$3.35 billion in assistance to Pakistan in 2009. This assistance is at the center of our civil-military strategy, which calls for a civilian surge to push back the Taliban in Afghanistan. For example, last year in Afghanistan, the Asian Development Bank completed a \$300 million electricity infrastructure project in Kabul. This funded the construction of a transmission line that brought a stable power supply to Kabul for the first time in decades and increased the supply of electricity for the city's four million residents, from a few hours a day to 24 hours. These kinds of programs create the foundation for Afghan livelihoods and economic growth, both crucial components to bringing stability to Afghanistan.

Technical Assistance

Treasury's Office of Technical Assistance (OTA) also directly supports our national security objectives by building the capacity of governments in more than 40 developing countries around the world. Working side-by-side with officials in finance ministries and central banks, Treasury's civilian advisors help governments improve their management of public finances, as well as build protections against abuses of the financial system. This work is a cornerstone of good governance, and is essential for the provision of basic public services that citizens rightly expect—security, education, health, and infrastructure. Strengthening financial management also helps countries use foreign assistance more effectively and hastens the day when they will no longer need it. As we work towards the President's goal of a civilian-led strategy in Iraq, Treasury's ongoing support can speed this transition by strengthening the government's capacity to support its citizens.

EMBARGOED UNTIL DELIVERY
1:30 p.m., Thursday, March 25, 2010

In this 20th anniversary year of the Office of Technical Assistance, we have requested \$38 million for FY 2011 to continue this critical work around the world. This is a small investment that complements other major U.S. investments in reconstruction, security, and foreign assistance.

In Haiti, shortly after the devastating earthquake struck the capital, OTA sent two technical advisors to assist the crippled finance ministry and central bank. This team has been working around the clock to help the government stabilize its financial sector and help facilitate an economic recovery.

In Afghanistan, OTA's work on economic crimes has helped the Afghan government develop a financial intelligence unit staffed and trained to track large cash transactions and suspicious activities from financial service providers. This unit can now share data with other law enforcement agencies in Afghanistan and help prevent money laundering and terrorist financing.

In a recent speech to the Aspen Institute, Ashraf Ghani, the former Afghan Minister of Finance, gave a strong tribute to the strength of our OTA efforts. He said, "It's an appreciation that needs to be made public: The best technical assistance I received was from the U.S. Treasury."

Lifting the Lives of the Poor and Advancing Core Values

Over the last few decades, we have seen a dramatic improvement in global living standards, thanks in no small part to the collective effect of bilateral assistance and the multilateral development banks to support developing country reforms. The proportion of the developing world's population living in extreme poverty has been halved since the early 1980s, with a 28 percent reduction in infant mortality, and large improvements in overall life expectancy and adult literacy. While great strides have been made, great challenges remain. The financial crisis showed us how rapidly gains can be erased. The World Bank estimates that about 64 million more people will be living in extreme poverty in 2010 than would have been the case had the crisis not occurred.

Our leadership in the fight against global poverty through the development banks is a sign that America is committed to pursuing solutions in cooperation with our partners. Treasury's request for \$1.709 billion for the MDBs is an essential investment that will fund programs critical to advancing humanitarian goals. These are largely past commitments made by President Bush.

For example, in Yemen, the World Bank has helped expand access to basic education, especially for girls, by increasing the number of classrooms and improving teacher skills and performance. Investments in Rwanda have helped nearly half a million people in rural communities gain access to basic drinking water facilities and improved sanitation. The African Development Bank has invested in roads and transport infrastructure across Ethiopia and into Kenya in order to facilitate trade and regional integration, which is increasingly recognized as an important development imperative among the highly fragmented and often landlocked economies of sub-Saharan Africa.

EMBARGOED UNTIL DELIVERY**1:30 p.m., Thursday, March 25, 2010**

And, in the aftermath of the devastating earthquake in Haiti, these institutions are working on the front lines to provide immediate and critical access to capital, the lifeblood of any economy, so that people can buy supplies and begin rebuilding their lives, businesses can open doors, and the government can function. Within days of the earthquake, the Inter-American Development Bank worked closely with the U.S. Government and Fonkoze, a remittance provider with retail branches throughout Haiti, to identify ways to deliver cash to the most vulnerable people in Haiti. With support from the Inter-American Development Bank's Multilateral Investment Fund and the U.S. military and government agencies, Fonkoze distributed \$2 million in cash to 34 of its retail branches. This means money in the hands of Haitians to buy food, water, and other essentials.

Strengthening Food Security

Today, more than one billion people suffer from chronic hunger. With a rising population and a growing global middle class, global food supplies will have to increase by an estimated 50 percent over the next 20 years to meet projected demand. This challenge is compounded by climate change, soil erosion, water shortages, and, in many of the world's poorest countries, stagnant agricultural productivity. Unfortunately, over the last 20 years, donors have scaled back their investments in agriculture with agriculture's share of official development assistance dropping from 17 percent in 1979 to just 3.5 percent in 2004.

At the G-8 Summit in Italy last year, President Obama pledged greater focus on reducing global hunger and extreme poverty by increasing investments in the agricultural sector, including a new multilateral trust fund.

For this trust fund, which will be administered by the World Bank, the U.S. will contribute \$408.4 million from the FY 2011 Budget Request, and \$66.6 million from the already approved FY 2010 USAID budget. We expect this fund to have a 10-year time horizon, which will provide predictable financing to support country-owned agriculture plans. We expect total initial contributions to the fund to exceed \$1 billion once sizeable investments from other donors, such as Canada, Spain, major foundations and other countries, are included. Treasury, State, and USAID are reaching out aggressively to prospective donors to increase both contributions and participation in the trust fund. The trust fund will utilize and leverage the technical capacity of the multilateral development banks and provide financing for country-owned agricultural plans.

The design of the trust fund has been informed by best practices learned from previous multi-donor trust funds. We have been negotiating the framework for the fund, ensuring an innovative and flexible operating model, seeking effective and rapid disbursements, and including participation of civil society organizations and recipient countries in the governance structure. As soon as we launch the trust fund, it will consider proposals from low-income countries from Africa, Asia and Latin America.

Treasury is also requesting \$30 million for the International Fund for Agricultural Development (IFAD). IFAD focuses exclusively on reducing rural poverty and hunger, which is essential to achieving our overall food security objectives given that nearly 75 percent of the world's poorest people reside in rural areas.

EMBARGOED UNTIL DELIVERY**1:30 p.m., Thursday, March 25, 2010**

The U.S. contribution to IFAD will leverage an additional \$1.1 billion in contributions from other donors pooling in the organization, thereby providing 13 times the initial investment, and helping an estimated 60 million people. IFAD is uniquely positioned to work at the grassroots level with rural communities and farmers' organizations to design and implement projects and programs tailored to the needs of the rural poor, especially smallholder farmers.

Debt Relief

Debt relief can help stabilize poor countries emerging from conflict and natural disasters, and is an important element of our toolkit to support the poorest and promote prosperity. By putting countries on more sustainable debt paths, we help them restart growth and attract private sector investment. In addition, debt relief programs are structured to ensure that the savings are directed to critical social programs, ensuring countries can invest in their people. In Africa, many governments used debt savings to eliminate primary school fees, providing educational opportunities for children.

For FY 2011, Treasury is requesting \$70 million for debt reduction activities. Of this amount, \$50 million is requested for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The United States has been a leader in this initiative, and has helped support some of the world's poorest countries in their efforts to move beyond debt and into development. As you know, Liberia, Haiti, and Afghanistan have all benefitted from U.S. debt relief in the past. This year's request would be used to make a substantial contribution towards meeting the \$75.4 million in U.S. pledges to the HIPC Trust Fund that have not yet been fulfilled. In addition to the funding request for the HIPC Initiative, \$20 million is requested for activities under the Tropical Forest Conservation Act.

I would like to express my appreciation for the strong support of so many members of this Committee to relieve Haiti's debt following the earthquake, and I urge all of you to support the supplemental that the President submitted yesterday. In parallel with your efforts, we have been working actively with international partners to deliver comprehensive debt relief for Haiti.

Just this past weekend, we reached an agreement with other Inter-American Development Bank shareholders to cancel all of Haiti's \$479 million debt to the institution. And we are doing so in a way that delivers new grant resources to Haiti going forward to meet urgent reconstruction needs. We are also working with our G-7 partners and other donor countries to achieve the same results with the World Bank and IFAD.

Addressing Global Challenges--Climate Change

We are also determined to ensure that our engagement in the multilateral institutions promotes global action to address the world's most pressing global challenges—primary among them: climate change.

This complements our commitment—evidenced in Copenhagen and other venues—to work with our global partners to forge a global solution to climate change and to address its impacts, at home and abroad. That's why you've seen the President implement a sweeping set of incentives for investments in clean energy and energy efficiency.

EMBARGOED UNTIL DELIVERY
1:30 p.m., Thursday, March 25, 2010

But this is a global challenge that demands a global solution. Therefore, as we work to develop an effective response to climate change at home, we must help ensure that other countries around the world do their part. That is why we are working with the World Bank to develop a framework and financing mechanisms that effectively support international mitigation and adaptation efforts. Treasury's Budget Request will help lead the United States and its global partners to low-carbon, climate-resilient economic growth, and help the most vulnerable countries prepare for and respond to climate change.

Specifically, the requested contributions of \$635 million to the Climate Investment Funds and \$175 million for the Global Environment Facility are critical to that endeavor. By contributing \$400 million of these funds to the Clean Technology Fund (CTF), we are facilitating the development of country-led clean energy investment plans that can attract private financing and create new models for energy investments in developing countries. The CTF has already mobilized nearly \$44 billion dollars in planned investments for clean energy, energy efficiency and sustainable transport in just over one year of operations on a funding base of \$4.3 billion. Specifically, CTF projects will help produce nearly a gigawatt of clean energy through a network of solar power stations across five countries in the deserts of Northern Africa. They have also helped foster private-sector led, large-scale development of wind energy in the Oaxaca region of central Mexico.

The Global Environment Facility (GEF) has supported more than 2,000 projects in 165 countries to improve the environment since its inception in 1991. Through its sustainable urban transit portfolio, the GEF has helped to avoid global emissions of nearly 60 million tons of CO₂, equivalent to the annual emissions of Denmark. In Mexico City alone, GEF investments in a clean rapid transit bus system has delivered a 50 kilometer bus system that runs through the city's main transport arteries and has led to a reduction of 80,000 tons of carbon dioxide a year.

Of the \$70 million Treasury is requesting for debt reduction activities, \$20 million would be for its activities under the Tropical Forest Conservation Act, a U.S. government effort that allows eligible countries with significant tropical forests to be relieved of certain official debt owed to the U.S. while generating funds in local currency to support conservation activities.

Pursuing the Reform Agenda

As first responders to the financial crisis, we asked the multilateral development banks to stretch their balance sheets, and they responded with commendable speed and force. It is now our turn to ensure the World Bank and regional development banks have adequate capital and funding to fulfill their missions of lifting the lives of the poor, promoting security, addressing climate change and other global challenges, and underwriting global growth. That is why we will examine the capital needs of these institutions and work with Congress to determine how best to renew American leadership and deliver results.

We invest in the World Bank and the regional development banks because they provide strong, effective and highly leveraged means to advance global prosperity while also promoting core American interests and values. For every dollar the United States contributes to paid-in capital for the World Bank, six dollars of additional capital is generated by other donors. And, for every dollar we invest in the World Bank, \$26 worth of aid is delivered.

EMBARGOED UNTIL DELIVERY**1:30 p.m., Thursday, March 25, 2010**

As a result, U.S. contributions to date to the World Bank have generated enormous impact, enabling lending levels that are nearly 250 times that of our paid-in capital investment.

Our focus on resources will be matched by an insistence on results and reform. The United States remains intensely focused on ensuring maximum results for every taxpayer dollar used for development and on ensuring these institutions first and foremost improve sustainable economic opportunities for the poorest around the world. Especially during this time of constrained resources at home and when unemployment is unacceptably high, we must make sure that our investments yield the highest returns.

While our reform agenda varies by institution, broadly we are focused on four critical areas:

1. *Sound Finances:* The United States is pioneering new financing models in the MDBs to promote sound use of the capital we provide and pushing for changes to focus their work on the poorest countries. For example, we are seeking loan charges for the hard loan windows that will result in substantial profits that can be transferred into the soft loan windows for poorer countries. We are also seeking to help make sure that the MDBs do not build up excessive capital when demand from borrowers falls. As middle income countries gain more access to capital markets and their demand for MDB loans decline in future years, we will pursue approaches that either transfer these resources to the soft loan windows or return this excess capital to donors. In addition, we are proposing more disciplined budget strategies within institutions so that they cover their own costs.
2. *Effective Management and Governance:* The United States will seek stronger performance measures and metrics, call better incentives to innovate and demonstrate impact, and press the development banks to become better partners in support of country-led development strategies while improving their coordination with bilateral donors, the private sector, and each other. The Asian Development Bank, in large part responding to US proposals, is taking concrete steps to improve internal controls through the establishment and elevation of the risk management office, and strengthen the internal audit and integrity functions, consistent with best practices in other MDBs.
3. *Transparency and Accountability:* The United States will continue to pursue stronger transparency and accountability at the institutions by making disclosure of significant policy documents the norm, and creating effective inspection mechanisms to allow for direct feedback on projects and policies from affected communities. The World Bank has already implemented a new disclosure policy that sets a strong standard for the other institutions.
4. *Focus on Core Missions:* The core mission of the multilateral development banks has always been to fight poverty and enhance development opportunities. The United States will continue to ensure these institutions concentrate on results for the poorest, with a special focus on four transnational challenges that were agreed upon by the G-20: food security, human development and security in the poorest and most fragile environments, private-sector-led growth and infrastructure, and climate change. Investments in these areas will help ensure sustainable economic growth that can lift lives, as well as advance U.S. national security and values.

EMBARGOED UNTIL DELIVERY
1:30 p.m., Thursday, March 25, 2010

For continued progress on these reforms, we need to stay engaged. America's ability to shape these institutions rests upon being a member in good standing who pays our fair share. By fully funding our Budget Request for \$3.065 billion, you will be able to shape the full \$100 billion in development assistance to be provided by the MDBs in 2011.

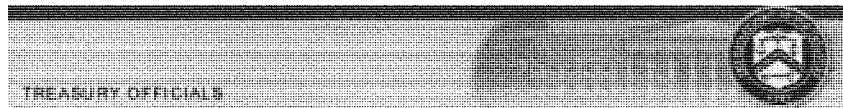
Conclusion

Treasury's Budget Request for \$3.065 billion represents investments that are central to renewing American leadership on initiatives to help move people from poverty to prosperity, from hunger to food security, from fragile states to stable governments, and from environmental degradation to sustainable climate solutions.

The request represents less than 5 percent of the total International Affairs budget, but it contains the capacity to yield enormous results for the United States due to the highly leveraged and effective nature of our investments. This budget increase reflects a deliberate strategy to engage in multilateral efforts that are smart and highly leveraged complements to our bilateral investments.

We make these requests in the context of one of the most challenging economic environments for Americans in generations with our nation facing severe fiscal constraints. Yet we make it with the confidence that these investments will contribute to building a stronger global economy and promoting our national security.

Thank you.



Timothy F. Geithner
Secretary of the Treasury

On January 26, 2009, Timothy F. Geithner was sworn in as the 75th Secretary of the United States Department of the Treasury in a ceremony attended by President Barack H. Obama, and Vice President Joseph R. Biden Jr.

Before his nomination to the Treasury, Secretary Geithner served as the ninth president and chief executive officer of the Federal Reserve Bank of New York, where he began on November 17, 2003. In that capacity, he served as the vice chairman and a permanent member of the Federal Open Market Committee, the group responsible for formulating the nation's monetary policy.

Secretary Geithner first joined the Department of Treasury in 1988 and worked in three administrations for five Secretaries of the Treasury in a variety of positions. He served as Under Secretary of the Treasury for International Affairs from 1999 to 2001 under Secretaries Robert Rubin and Lawrence Summers.

He was director of the Policy Development and Review Department at the International Monetary Fund from 2001 until 2003. Before joining the Treasury, Secretary Geithner worked for Kissinger Associates, Inc.

Secretary Geithner graduated from Dartmouth College with a bachelor's degree in government and Asian studies in 1983 and from the Johns Hopkins School of Advanced International Studies with a master's in International Economics and East Asian Studies in 1985. He has studied Japanese and Chinese and has lived in East Africa, India, Thailand, China, and Japan.

He and his wife, Carole Sonnenfeld Geithner, have two children.

IRAN

Mrs. LOWEY. Thank you, Mr. Secretary.

This subcommittee, and I see members on both sides of the aisle, some of whom are not here today, have expressed deep concern about the number of World Bank loans made to Iran between 2004 and 2005 that are still being disbursed. In previous years, the subcommittee has been told that this disbursement could not be stopped because the United Nations Security Council Resolution exempted humanitarian and development activities. It does not make sense to me that we would allow this funding, which is in the hundreds of millions of dollars, to move forward without some effort to stop or slow this disbursement.

If you could share with us what mechanisms are currently in place to ensure that the funding disbursed on the old loans is used for the intended humanitarian purposes and are not diverted to other purposes, and how does the Treasury follow these loan disbursements? What checks do you currently have in place to monitor the Bank and ensure it is checking the legitimacy of the expenditures? And what is Treasury doing to prevent further multilateral bank loans to Iran? And as part of the interagency process, what is Treasury doing to recommend that the UN Security Council resolutions prohibit funding for humanitarian and development purposes?

Secretary GEITHNER. Thanks for raising this issue. As you know we oppose those loans. We don't think they should have gone forward. And we have been successful in blocking any further loans since then, and we are going to continue to work closely with countries around the world to substantially increase the pressure on this government in Iran.

Now, these loans are—the disbursements still continuing, as you acknowledged, are permitted under the UN resolution. I do not believe they are material, but I share your concern about them. The World Bank has a very elaborate well-functioning set of controls in place to make sure they go to their intended purposes, which are to promote development under this humanitarian exemption, but I just want to underscore that we share your view that this should not have happened and will not happen in the future until we have a satisfactory outcome with our discussions with that government in reducing their support for terrorism and to ending their nuclear weapons program.

Mrs. LOWEY. I know this is a great concern to members of this committee on both sides of the aisle. I want to make it clear, it is totally unsatisfactory if we are working together, and I commended Stuart Levey in particular on tightening the noose, tightening the sanctions, and then seeing these hundreds of millions of dollars going to Iran; it is essential that we get a clear understanding that these dollars are not going in the direction which I know you and I and this government has made clear do not want it to go.

I also want to make it clear that, in the interim, before the Iran Sanctions Act is passed, this committee put in very tough language regarding the Export-Import loans.

Just to refresh your memory: None of the funds made available in title VI of this act under the heading "Program Account" or

“Subsidy Appropriation” may be used by the Export-Import Bank of the United States to authorize any new guarantee, insurance, or extension of credit for any project controlled by an energy producer or refiner that continues to provide Iran with significant refined petroleum resources, materially contribute to Iran’s capability to import refined petroleum resources, or allow Iran to maintain or expand in any material respect its domestic production of refined petroleum resources, including any assistance in refinery construction, modernization, or repair, et cetera.

There is bipartisan support for this policy, and until that sanctions act is passed, we have the authority under the Appropriations Committee to even expand on this language. So I would hope that you can certainly get back to us about the loan disbursements and the checks that you have in place to monitor the bank and ensure it is checking the legitimacy of the expenditures.

Secretary GEITHNER. I am happy to do that, and you are right to highlight it. And I want to thank you again for commending the work of Stuart Levey and his colleagues at Treasury. They have been remarkably effective in substantially increasing the pressure on this regime through our financial sanctions, and we are working very hard every day with countries around the world to bring additional pressure to bear on this regime, and they have had a substantial effect already, but we are working very hard to bring additional pressure to bear on that government.

IMF

Mrs. LOWEY. Ms. Granger.

Ms. GRANGER. Last year in the fiscal year 2009 emergency supplemental, the Congress authorized the sale of IMF gold to shore up the IMF’s internal operating expenses and to contribute a share of the proceeds to help poor countries. The IMF conducted a gold sale last fall. Can you tell me how much was raised from this sale? Was it more than was estimated, given the high price of gold? Has the endowment been set up by this sale? Are proceeds paying for operating expenses? And is the IMF continuing to streamline its operations and expenses, as was promised in exchange for the authorized gold sales?

Secretary GEITHNER. You are right to point out that the purpose of this program was to both help fund the operational budget of the IMF, which under current leadership was reduced quite substantially, but also to free up some resources to help the poorest members of the IMF. I will have to get back to you with the details on the amount raised, and I will be happy—

Ms. GRANGER. Surely you have an estimate.

Secretary GEITHNER. I don’t have it in front of me today, but I will be happy to provide it in writing to you.

Ms. GRANGER. Your staff doesn’t?

Secretary GEITHNER. Oh, I am sure they do, but I don’t have it with me here. If they give it to me while I am up here, I will read it to you. But I will be happy to get back to you in writing.

NAB

Ms. GRANGER. I have another question. The fiscal year 2010 omnibus, we include a number of conditions on the use of funds, the

IMF's new arrangements to borrow, the NAB. Could you give me an update on the NAB operation? Is it functional? Has it made loans? Is it serving its purposes?

Secretary GEITHNER. We built those conditions into the agreement. That fund has reached its targeted commitments of \$500 billion. It is not yet operational yet, but it is going to come into place relatively soon. And I want to underscore the importance of what you helped make possible, which is we were able to get countries around the world to put up a very substantial contingent reserve to help provide insurance against future financial crises, and the signal of that commitment, starting early in the spring of last year, almost a year ago today, was very helpful in arresting, breaking the back of the panic of the global financial crisis.

So I want to commend you for your support of that initiative. We have been very successful in getting countries to put up very substantial forms of money behind this new emergency reserve fund. It is likely to come into operation relatively quickly, and we have met the conditions you have put into the law to make sure we are protecting our interests. Remember, those conditions were designed to make sure that the U.S. was leveraging commitments from other countries as efficiently as possible, and we had the chance to, how should I say, take stock of the merits of this arrangement, how it is working, relatively soon.

BRIC

Ms. GRANGER. I have a little more time. I have also read in the press that the so-called BRIC countries, Brazil, Russia, India and China, that they formed a voting bloc and have veto authority over the NAB's operation. Is that true? And if it is true, isn't this a threat to the accountability of the U.S. taxpayers' funds?

Secretary GEITHNER. No threat to us. And I would say that all countries who contribute, they seek to maximize their influence as do we. And so I think what you see them do occasionally is—Europeans do this, other countries do this already—is to see where they can work together, build coalitions to advance their interests. But no risk to our interests in that context.

And again, the basic benefit of this fund, like the IMF and like the World Bank and the other regional banks, is we get very good leverage for the taxpayers' money. And for that reason, it is a very effective way to promote our economic interests, our national security interests, because of other people coming alongside us putting their money in play as well.

Ms. GRANGER. Thank you, Madam Chair. I will have more for the next round. I hope there is one.

Mrs. LOWEY. Thank you.

Mr. Israel.

IRAN

Mr. ISRAEL. Thank you, Madam Chair.

Mr. Secretary, welcome. I want to pursue the chairwoman's discussion about the Iran Sanctions Act. I want to take issue with your characterization of efforts to enforce sanctions as remarkably effective.

I was stunned to read in the Sunday, March 7th, edition of the New York Times a lead cover story with the headline, "United States Enriches Company Defying its Policies on Iran."

Now, the issue is not simply the enforcement of sanctions, which can prevent loans from going to these companies. The Iran Sanctions Act allows for far greater leverage. Contracts, Federal contracts should be denied. Export authority can be denied. Military licenses can be denied. Financial services activities can be prohibited.

And this story notes that 49 companies doing business with the United States are also doing business in Iran. Your Office of Foreign Assets Control oversees implementation of the Iran Sanctions Act of 1996. You have an Under Secretary for Terrorism and Financial Intelligence. The work he is doing—I have a high regard for him personally, but it seems to me the work he is doing wouldn't result in headlines in stories like this.

This is not you alone. I have to say, in 8 years of the Bush administration, there was a consistent willful defiance of Congress, a refusal to enforce the Iran Sanctions Act passed in 1996. Eight years in the Bush administration, and it hasn't changed in this administration.

Mr. Kirk and I have decided that if you aren't going to change it, we will. This is the Appropriations Committee. We have the power of the purse, and so Mr. Kirk and I have inserted language or asked for language in every single appropriations bill that says that none of the funds appropriated or otherwise made available by this act will be obligated or expended by any Federal department or agency to provide funds to any person or entity through a contract grant, loan or loan guarantee unless the person or entity certifies that Iran Sanctions is not being violated.

So my question to you, Mr. Secretary, is, how can you persuade me that this language isn't necessary? What are you going to do to enforce the Iran Sanctions Act? And that is number one. The second question is, what are you doing to discourage those companies from engaging in illegal activity with Iran?

Secretary GEITHNER. Congressman, we share your commitment, and we are working very hard to find—explore all feasible means to bring greater pressure to bear on this regime. I will be happy to work with you on that suggestion, happy to come talk to you in more detail about how to do this effectively. We will be open to any effective means for bringing greater pressure to bear on this government. But I—and again, I am happy to have my colleagues, Stuart Levey and others, spend more time with you on this stuff.

This has been a very aggressive, very effective program, particularly in trying to convince other countries to bring pressure alongside ours. As you know, we have been the toughest of any country in this area, the most aggressive, but our efforts aren't going to be effective unless we have other countries moving with us. In any case, we share your commitment to this, and we will work with you to explore any feasible means to bring greater pressure to bear on this government.

Mr. ISRAEL. Mr. Secretary, I appreciate your sharing of the commitment, and I don't doubt that you share the commitment. And I understand that we need to find all feasible and effective means.

But this is an Act of Congress signed by a President of the United States. All I am asking you to do is enforce the law, and so what is the difference? I mean, I am saying enforce the law, and I think your interpretation is, we will enforce the law as we see fit based on our interpretation of effective means.

Secretary GEITHNER. Of course, we are enforcing the law, and we are working very closely with our colleagues in the executive branch, including the State Department, to make sure we are enforcing that law.

But we want to do better than that. We want to make sure that we are working with countries around the world to bring greater pressure to bear on this government, and it is going to more than just enforcing our current authority to do that. But, again, I will be happy to work with you and Congressman Kirk on how best to do that, and I commend you for your effort and focus to this important national security issue.

Mr. ISRAEL. I appreciate that. Mr. Kirk and I have submitted language, identical language, in every single one of the appropriations bills, and we will look forward to a dialogue with you.

Thank you, Madam Chair.

Mrs. LOWEY. I just want to share the chair's opinion, Mr. Secretary, that I, and I know members of the committee, strongly support the views of Mr. Israel and Mr. Kirk on this issue and are aware that the Department of State has the key role in enforcing these priorities and working to try to build a multilateral coalition.

So as we move forward, before our appropriations bill is passed, we already took action with regard to Ex-Im in this bill, and depending on when the Iran Sanctions Act is signed by the President and the actions of State in building a multilateral coalition, we will move forward and put additional restraints.

I just want to say what I am particularly concerned about, having just returned from a bipartisan codel to Saudi Arabia, Amman, Dubai, and Abu Dhabi, that subsidiaries of our corporations are having a field day there, and it is of great concern to all of us. And that is why this recommendation of a certification, I do believe, and I share the gentleman's concern, is essential in moving further in enforcing the sanctions.

So I thank you and Mr. Kirk for bringing this issue to the attention of the Secretary.

Secretary GEITHNER. Madam Chair, could I just respond to Congresswoman Granger's question about gold sales? This is a part of the response, but I will give you the rest subsequently in writing, which is that the total profits on gold sales to date are \$4.7 billion. That is the return on the sales above the book value held by the IMF, but I don't know what that is relative to what expectations were. But you asked a series of other detailed questions, and I will be happy to respond in writing.

Ms. GRANGER. Thank you very much.

Mrs. LOWEY. Mr. Kirk.

Mr. KIRK. I echo the sentiments of my chair and Mr. Israel here.

I would just say that I would hope that our policy for the President's upcoming action is, sign it and seal it. Sign the Refined Petroleum Sanctions Act, and then seal off gasoline to Iran.

In the briefings that we have had, it appears the Obama administration is against imposing gasoline sanctions on Iran. Your staff has given me the strong impression that you will not impose a gasoline sanction on Iran and that the administration will not consider any unilateral action that is not approved by the UN Security Council.

You are getting a fusillade of opinions, and I would refer you to Senator Schumer's speech before AIPAC, in which he cut loose from the Obama administration policy and said that a unilateral policy of restricting gasoline is absolutely essential to the security of the United States and Israel.

Now, are you in favor of what Stuart Levey said to us, which is basically, we are not going to do gasoline sanctions?

Secretary GEITHNER. Congressman, I will state to you, as I did to your colleagues, we share your commitment to finding effective ways to bring substantially greater pressure onto this government, and we are working very hard with countries around the world in support of that objective. And we will look at any effective means for doing that.

It is important, of course, to recognize that it is not just what we do, and of course, right now, it is not even the most significant thing what we do as a country, because we have been very aggressive. It is what we are able to convince other governments around the world to do because they are now the primary source of economic and financial assistance to this regime.

But, in any case, we share your commitment to this issue. You are right to bring attention to it. We commend you for your leadership on it, and we will work with you to explore ways to bring more pressure onto this government.

Mr. KIRK. It actually appears that you are going in the opposite direction. The Wall Street Journal reports that the U.S. has softened its stand on Iran sanctions and has now removed banking service and capital markets action from any discussion of sanctions.

Secretary GEITHNER. I do not believe that report is correct, but I think I need to leave it to my colleague, the Secretary of the State, to walk you through particular strategy and objectives with respect to the new resolution that we are pursuing in the UN. But, again, we are committed, the President is committed, to trying to build the strongest possible international support for the strongest possible resolution so we can bring more pressure to bear on this government. We are making a lot of progress in this area.

Mr. KIRK. But the President is against a unilateral use of the United States Navy to restrict gasoline from the Islamic Republic of Iran pursuant to the Act which he is about to sign.

Secretary GEITHNER. No, I can't say whether that is correct or not. I didn't want to speak to that.

I am just saying that we will work with you to try to find ways, again, to bring more pressure onto this government. And we are making a lot of progress trying to build support for this around the world.

Mr. KIRK. Did you know that the World Bank provided \$50 million in support directly to the Islamic Republic of Iran Finance Ministry in 2009?

Secretary GEITHNER. I don't know if that is correct, but I will be happy to go and check.

But as you know, Congressman Kirk, under these loans, which we tried to block but were unsuccessful in blocking, which were permitted under the UN resolution, they are still disbursing. Now, right now, Iran is paying the World Bank net resources every year. These are not large amounts of money.

The critical test of whether we are effective in trying to end their nuclear program and deal with other concerns of Iran is going to be what we are able to achieve in the UN and what we are able to achieve working with countries around the world to tighten substantially the existing network of multilateral sanctions on Iran.

Mr. KIRK. And you are about to pay the Islamic Republic of Iran Finance Ministry out of the World Bank—this is literally two blocks from your office—\$191.5 million.

Secretary GEITHNER. Again, I don't—you are saying I am about to. I don't know that. But I will be happy to check the facts and get back to you.

Mr. KIRK. I think you are about to. I think this committee is probably—

Secretary GEITHNER. Are you saying—just to make sure I understand, because I want to make sure I respond in writing accurately, you are saying—can you repeat again what your concern is?

Mr. KIRK. In 2009, the World Bank using—

Secretary GEITHNER. You are referring to World Bank disbursements—

Mr. KIRK. Right. Using—20 percent of that funding is from the United States taxpayer, sent the Islamic Republic of Iran Finance Ministry \$50 million.

Secretary GEITHNER. No. As I said, you are referring to these two loans, disbursement of these two loans, and you are right to be concerned about this. And as you know, we tried to oppose these. We can't block them and don't have the ability to do it. They are still disbursing under that. It is not, I believe, a material amount of resources in the context of a broader objective, and we are going to work very carefully to make sure that there are no new loans approved to this government by those institutions.

Mr. KIRK. Madam Chair, there is one bigger issue that I think could engulf this committee, and that is Moody's reported on Monday that it has warned your government that the U.S. and United Kingdom are moving closer to losing their AAA bond rating. This week we have learned that Berkshire Hathaway is now a safer place, according to the market, to lend money to than Uncle Sam, and that your auctions of the notes, and especially the 10-year bond, were fairly disastrous yesterday.

Secretary GEITHNER. That is not true, congressman, but—

Mr. KIRK. Actually, well, should I read the L.A. Times to you in its coverage of your bond sales?

Secretary GEITHNER. You can if you like, but I know what happened in the Treasury market and—

Mr. KIRK. "Sell-off Sends Treasury Bond Yields Soaring" is the headline.

Secretary GEITHNER. Maybe I could—you and I have had a chance to talk about this a lot in many, many hearings in the past;

so let me just see if I can respond to your concern. You are right to be concerned about our unsustainable fiscal position. We share that concern. Our budget deficits are too high. They were too high a year ago when we came into office. And if you look forward, they are unsustainable over the longer term.

Mr. KIRK. I am trying not to make a partisan point. I am trying to make——

Secretary GEITHNER. Nor am I.

Mr. KIRK. So I am going to try to make a point directly into the AOR of this subcommittee. Because we have a growing sovereign debt issue that even includes the sovereign debt of the United States, the sovereign debt situation of Portugal, Spain, and Greece is now becoming more dire. And my understanding is that the negotiations of the Greek Government to the EU and Germany have not yielded a European solution. So the Greeks are now being asked to come to the IMF, an institution funded by this subcommittee. Is that not the situation we are in?

Secretary GEITHNER. Well, Europe is trying to come together to find a way to help the Government of Greece dig out of their economic crisis. Greece is a member of the IMF. You are right to say the press is reporting that the Europeans are considering asking the IMF to play some role in the resolution of this crisis. Greece, as a member of the IMF, has the right to go to the IMF and to borrow funds if it is willing to commit to an economic program that can help dig its way out of the crisis.

But Europe hasn't reached agreement yet on how to resolve this problem. They are working on it. They have the capacity to figure out a solution that will help Greece manage through this, and I am confident they are going to do that.

Mr. KIRK. I would just say to the chair, I am increasingly concerned that resources at the IMF are not adequate to meet a growing sovereign debt crisis; that the Portuguese and Greek crises are only harbingers of the Spanish debt crisis, which is five times worse. And this may directly affect funding in our bill when we write it in May or June.

Mrs. LOWEY. Thank you.

And I know that the Secretary would be happy to continue this discussion recognizing the severity of the problem.

I will tell you one good thing. It is good to know that Moody's can be relied on for some kind of a rating. Unfortunately, in the last few years, that wasn't the case.

Ms. McCollum.

Ms. MCCOLLUM. Thank you, Madam Chair.

Madam Chair, I appreciate your comments about loans that have been made in 2004, 2006, I believe; so I want to focus on kind of what is today.

Mr. Secretary, in your testimony, you stated that every \$1 invested in the World Bank results, from our calculation in checking with others, \$26 worth of development assistance delivered. That is a pretty good return.

And for that reason, I have been very supportive of the U.S. role in advancing important development work of the World Bank.

Unfortunately, this committee sometimes gets a little confused when we are talking about what loans and what the World Bank

is doing and what the U.S. has a role in. There was, in my opinion, some distortions made about the important role that the U.S. plays in the World Bank. In fact, there was a statement made in a recent subcommittee hearing with Secretary Clinton, and I quote, Imagine how confused Ahmadinejad is receiving a check from the World Bank from the Obama administration.

Secretary Geithner, is the Obama administration providing taxpayer funds to the World Bank through IBRD, the IFC, or IDA that goes to assist the Iranian President Ahmadinejad?

Secretary GEITHNER. This administration is not. Those loans were made, as you said, back in 2005, and they were made by the entities of the World Bank Group. Now, we, of course, are a major shareholder in those institutions——

Ms. MCCOLLUM. Correct.

Secretary GEITHNER. And of course, those institutions have a claim on our commitments and our resources. But those loans were made in 2005 over our objection, but they are still disbursing because they are permitted under the UN resolution.

Ms. MCCOLLUM. But we are currently, under the accounts that we do put money into that does developmental aid, none of that is going to Iran. They don't even qualify for IDA so——

Secretary GEITHNER. That is right. Exactly. That is true.

Ms. MCCOLLUM. I, too, read the Wall Street Journal, and I will quote from March 2, 2010: Caterpillar, of Peoria, Illinois, has acknowledged in the past that its equipment is sold to Iran, despite U.S. Sanctions that prohibit most American exports to the Islamic Republic. The company has said that its foreign subsidiaries have conducted limited sales to independent dealers outside Iran, which resell to customers inside the country. Caterpillar has said those sales have been in full compliance with U.S. Regulations.

And I would differ with that.

So going back to regarding sanctions: A group of former Bush administration officials have an organization that they called United Against a Nuclear Iran. This organization recently exposed an Illinois-based company, Caterpillar, for profiting from selling machinery including tunnel-drilling equipment to Iran through a subsidiary. The United Against a Nuclear Iran letter to Caterpillar CEO James Owen states, quote, In the face of overwhelming bipartisan support in the U.S. Congress to economically isolate Iran's oil and natural gas industry, Caterpillar continues to make its machinery available for use in the development of the Iranian oil industry.

The letter further goes on that they call upon Caterpillar to clarify whether tunneling equipment or heavy machinery in Iran is used to develop for the construction of Iran's nuclear facilities. The prospect that the Illinois company's equipment right now is digging tunnels to assist Iran's nuclear program is very troubling.

Mr. Secretary, we all know that money is fungible, so when a U.S. company's product is sold in Iran through foreign subsidiaries, companies like Caterpillar profit, and then use to influence decisions made here in this Capitol, our efforts are being undermined at making these sanctions really work.

Mr. Secretary, does Congress need to strengthen sanctions to prevent companies like Caterpillar from profiting in Iran, and what do we need to stop that now?

Secretary GEITHNER. I don't know if I can speak specifically to that case, so I will be happy to look at it and refer your questions to my colleagues, but of course, we are prepared to work with Congress to strengthen the existing sanctions regime to make sure it is being applied as effectively as possible. And as I said, we are working very hard with countries around the world to make sure we can bring substantial additional pressure to bear on this government.

Ms. MCCOLLUM. Madam Chair, I have some documents to enter for the record.

[Information appears on page 358.]

Mrs. LOWEY. Without objection.

Ms. MCCOLLUM. And I went back, and I think all of us need to take a serious look at Caterpillar's involvement here with us individually on the hill.

Mrs. LOWEY. Mr. Crenshaw.

HAITI

Mr. CRENSHAW. Thank you, Madam Chairman.

Mr. Secretary, yesterday we had a briefing with the Department of State and talked about Haiti, and it was pointed out there is about \$4 billion that is going to be given to them over the next 18 months. I think for the reconstruction period, it is another \$11 billion, \$11.5 billion. So that is about \$15 billion. Our fair share of that, I think you said, was about \$2 billion to \$3 billion. And I saw where the supplemental has \$212 million for debt relief. I am trying to understand those numbers.

As I understand it, back in July, there was kind of a debtors conference, and all the donors agreed to forgive all the debt for Haiti, and certainly that is understandable. But I am trying to understand how, if that was in July, now we have another \$212 million that we are going to forgive, obviously, in the situation they are in, that is certainly appropriate.

So part of it I would like to understand why they have the debt there over these last 7 months, and partly I would like to understand if that is a country that is so poor that they qualify for debt relief, I wonder what is the criteria for a debt versus a grant because I just don't want this committee to be in a position this time next year to say, well, we have got some more, the fact that we have already given \$2 billion to \$3 billion, but now there is some more debt that we are being asked to forgive. So if you could talk about that.

Secretary GEITHNER. A very good question. Most of the debt Haiti owes to governments around the world is—very little of it is owed to the United States. Most of the debt they owe to multilateral institutions is owed to the Inter-American Development Bank and some other international financial institutions. To reduce that debt, the debt they owe to the IDB, costs money, but we think it is good policy because it doesn't make sense for us to be providing substantial resources directly to Haiti; it just goes to pay back the obligations they have to the IDB.

So as part of this broader effort to mobilize as much global resources as we can to help Haiti through this, we thought an accord on canceling Haiti's was appropriate and necessary, but to do that effectively, you need to deal with the debt they owe to the multilateral institutions, not just the bilateral institutions. And our share of the cost in reducing the debt they owe to the IDB is the number you referred to in your opening—in your remarks in your questions.

But again the simple test is, you can provide resources lots of different ways; it doesn't make sense for us to give them substantial amounts of money that just go to repay their multilateral and bilateral creditors. So we have worked with countries around the world to get them to agree to cancel or extinguish their bilateral debt, but we need the IDB and those other institutions to do the same thing.

Mr. CRENSHAW. So the IDB probably, in that intervening 7 months, made an additional loan—

Secretary GEITHNER. I don't actually know that is the case. I guess it is possible. So I am not sure what changed between July and—

Mr. CRENSHAW. Or maybe they didn't all—maybe they didn't agree—I mean, they all agreed to pay 100 percent of the debt, but maybe it wasn't paid—

Secretary GEITHNER. They may not—it is possible—but I will come back to you on this in more detail. It is possible that that initial stage was just about governments around the world, not the international institutions. And this will be a critical part of it. Getting the IDB to move, too, will be a critical part of any effective solution—

IDB

Mr. CRENSHAW. You mentioned the IDB. Let me ask you, I think just last week you released another \$500 million to kind of increase their capital, and I imagine they make loans, Latin America, Caribbean, difficult times globally in part and also just because there is more demand down there. Would you comment on that? Is that the reason why that \$500 million was added, released? And also comment on the fact that, from time to time, I hear that the IDB is not very friendly to the U.S. when it comes time for some of the procurement contracts. I don't know if that is true or not, but it seems like we are providing a lot of the money that goes in the IDB that we ought to get a fair shake when it comes time to procure those contracts. Could you comment on those two things?

Secretary GEITHNER. Absolutely. At the peak of this financial crisis, when you saw exports stop around the world, growth stop around the world, we were successful in convincing the World Bank, the IDB, the Asian Development Bank, other MDBs to substantially increase the amount of resources they were giving to what are some of the most important markets for U.S. exporters. They delivered. They moved very, very quickly. They got a lot of loans out the door in support of reforms at development projects and that made a critical effort in helping restart the flow of trade, restart growth globally.

In the wake of that commitment, which is substantially where their capital is based, we have worked with the other major shareholders in the IDB to reach a provisional agreement on how to strengthen their financial position. As part of that, we have reached agreement on a set of reforms to improve how the institution is run, to make sure those resources are being used in the most effective manner possible.

I don't have with me any details on the procurement record of U.S. institutions in IDB-supported projects. I would be happy to come back to you with more detail on that. I haven't been exposed to concerns recently about that. But again, our interests are in making sure these institutions are supporting U.S. interests, our economic interests, our national security interests, and they have a very good record, including the IDB, of providing very good leverage for our scarce resources in support of those commitments.

But when we put resources on the table to make them stronger, we do so only in support of a very tough, ambitious set of reforms that are designed to make them more transparent, more accountable, better run, more focussed on things that we think best serve our interests, and this provisional agreement we reached last weekend, which I think is what you were referring to, is in that best tradition.

Mrs. LOWEY. Mr. Chandler. We are going to try to move through here.

Mr. CHANDLER. That is the way it always is when it comes to me.

Mrs. LOWEY. No. But we will come back just for you if you would like.

IRAN

Mr. CHANDLER. I appreciate that.

Mr. Secretary, hello. I know you have been talking a lot already, because members are interested in it, in sanctions against Iran. The reason, of course, that they are interested in it is that none of us want Iran to get nuclear weapons. I have—for as long as I have been on this committee, I don't think there is any issue that is more important to the members of this committee, and that is across the board. It is extremely important to the members of the committee, and I think we all know that if sanctions don't work, we will be looking at options that we don't even want to contemplate, none of us want to contemplate.

So it becomes imperative that we make the sanctions work. And I know that you have a great deal of experience in Asia. I know you have lived in several countries there during your career. Could you give us some indication of where China is on the subject right now? Sanctions, we all want them to work, but we also know that if we don't have some unanimity, some effort amongst all countries, that we have got a significant problem and that they either may not work or probably won't work.

Secretary GEITHNER. You made the critical points. This is vital to our national security interests. And to be effective in bringing pressure to bear on this government, we have to get the other major players to come with us. This includes Russia, and it includes China. It is not just about Europe.

And Secretary of State Clinton and Ambassador Rice are working very hard right now in trying to make sure they can strengthen the prospects of broad agreement among those key countries for a very strong resolution. That is the principal focus of the President's attention right now, and of course, we are going to work very hard to be persuasive with Russia and China to gain their support for a strong resolution.

Mr. CHANDLER. Where does the matter stand now? From what you can tell, what kind of progress are we making along those lines? There has been some suggestion that there was some intransigence there on the part of those countries. Do you—

Secretary GEITHNER. All I can say, Congressman, now is that is really a question that I should leave to my colleague, the Secretary of State, but she is very persuasive. She is very tough, and she is working on it very hard with the full engagement of the President. And we are going to keep at it until we get as much support as we can for the strongest resolution.

Mr. CHANDLER. I see I have time. One more quick question. The World Bank. Are we spreading too thin? It seems like it is undertaking a number of different roles that it had not played in the recent past. All of a sudden and now we are talking about a global food security fund that it is going to be involved in. Are we spreading it too thin?

Secretary GEITHNER. I don't think so. I think you are right to point out that, over time, what happens is we give new missions, new responsibilities to these institutions, particularly the ones that have the best record of being effective, and the World Bank is a step above the others, frankly, in how effective it is in using these development resources in support of things we all care about. But the reason why we are proposing to put a larger share of our overall foreign assistance budget into these trust funds and into the multilateral banks is because, again, we think they give us better leverage for our dollars, our scarce dollars, and we think they come with the best technical expertise, frankly, in running programs in agricultural development, to promote food security, to increase agricultural productivity, as well as in the areas of encouraging greater energy efficiency, reducing emissions.

The World Bank has the greatest concentration of technical expertise in the world in those specialized areas, and I think our judgment is, if you build on that expertise, you build on those institutions, you are more likely to have other countries come in and have those resources mobilize in support of our resources with better outcomes, better returns.

Now, I said in my remarks, that among the reforms we are proposing to the institutions is to try to get them to concentrate on a set of core objectives which we think are most important. And the ones we focused on are private-sector development, food security, agriculture development, helping the poorest in these countries, helping address poverty most directly, and in the areas of climate change. Now, there are other things that are important for them to do as well, but we want to make sure that we can concentrate their focus, narrow their focus on those core areas of concern to us.

Mr. CHANDLER. Thank you.

Mrs. LOWEY. Mr. Rehberg.

Mr. REHBERG. Thank you, Madam Chair. In the interest of time, I would like to submit some questions for the record to have the Secretary answer.

Real quickly, in your fiscal year 2011 request, following up on his point, you are asking for \$408.4 billion for the global agricultural and food security program. I am a real supporter of food aid and believe it is important to do. But my first concern is that it is still in the initial stages. Second, that Canada and Spain and the Gates Foundation are the only ones that have joined in so far. Third, there is no congressional legislation authorizing the appropriation. Fourth, there is a possibility that the World Bank's International Development Association, which is asking for \$1.285 could do this same thing.

So I will give you a series of six questions for the record, but I guess, most importantly, aren't you getting the cart before the horse in that there is no authorization for the expenditure of this fund in the first place? And what is a fair percentage for America to shoulder? I always look at numbers to see who else is involved.

Secretary GEITHNER. Those are good questions. And of course we are working very closely with the authorizers to make sure we have authorizing legislation to go with this.

Mr. REHBERG. And you anticipate that within this 12 month period.

Secretary GEITHNER. We do anticipate that. Again, my sense is, just for the reasons you said, I think there is a lot of support for this. I think people recognize that if you care about development and in our economic interest in development, one of the most important things for us to do is to reverse what was a decade long decline in the share of resources and investments into these things that can make the biggest difference.

You are right to say that we are at the early stages still and trying to mobilize as much resources as we can. But we are confident that we have a better chance of getting more resources into this key priority by using this mechanism, a multilateral fund that works, that is located in the World Bank, uses that institutional expertise, that basic mechanism. I think we are going to have a better chance of getting more money from other countries if we use that mechanism.

Mr. REHBERG. I have tried to see if any recipient countries are going to be on the governing board. Can you assure us they are not?

Secretary GEITHNER. I don't know, but I will respond in writing. And I understand your concern again. The general tradition that has guided my predecessors in the past in the Treasury in the United States for dealing with these is, we want to have governing bodies where the creditors, the people putting up the money, have the dominant influence in what that money is used for.

Mr. REHBERG. I will yield back the balance.

Thank you Madam Chair.

Mrs. LOWEY. We are running into a time issue.

Ms. Lee.

Ms. LEE. I am going to be very, very quick.

Good to see you, Mr. Secretary.

Two questions. One is the GAO report 2008 laid out how the funds of OFAC are really misdirected in enforcing the travel ban on Cuba, and that an inordinate amount of OFAC's resources are tasked with an enforcement of policy that really has nothing to do with our risk in terms of our national security. So we were waiting to see the risk assessment as recommended by GAO, and I just want to see if that has been done. And have you reallocated your limited resources during this time of very tight budgets to areas that best address the risks to our national security?

And the second question is PEPFAR, our Global Aids Initiative. I know in the previous bill, in the last bill, we authorized Treasury to assist countries with their public finance systems. I want to see, have you started working on that? Are you coordinating with State, or how is that working, or have you started?

Secretary GEITHNER. On the first issue, you are exactly right that it is very important that we allocate these resources in OFAC to where we have the greatest national security concerns. I believe we are doing that, but I am happy to provide you more details in writing about how we use those resources today and how it has changed recently.

Ms. LEE. You were supposed to do a risk-based assessment as recommended by GAO.

Secretary GEITHNER. Again, I would be happy to come back to you in writing and tell you what we have done in that area and how we are using those resources. But you are right about the basic point. We want to make sure that, we don't have unlimited resources, we want them used to where we have the most important risks.

On PEPFAR, I have to come back to you in writing. I am sure we are coordinating with State very closely on this, and we will respond to any detailed questions you have about the state of play on that particular program.

Ms. LEE. Thank you.

And I have more questions for the record, Madam Chair.

Mrs. LOWEY. Mr. Rothman.

Mr. ROTHMAN. Thank you, Madam Chairman.

Mr. Secretary, great to see you again. I don't know how you actually read all the things you need to read with all the time you spend on the Hill answering our questions, but—

Secretary GEITHNER. I respect very much this important tradition in government, and I am happy to cooperate closely. I do enjoy coming up answering questions. It is a good thing that you guys put us in the position we have to come up here and explain. It does take time.

Mr. ROTHMAN. Good. And thank you for the outstanding work you are doing, by the way, in all areas.

I did want to acknowledge the issue raised today by Congressmen Israel and Kirk. Coincidentally, yesterday I announced that I would be adding to each appropriations bill limiting language with regard to preventing Federal agencies of the United States from doing business with any companies who did business with Iran. I was unaware of the language that Mr. Israel and Mr. Kirk were concurrently working on. And I do look forward to working with Mr. Israel and Mr. Kirk and others, the chairwoman, on that issue.

I have used that limiting language device before on other issues, and it works.

The State Department does seem to me to have the lion's share of responsibility of enforcing the prevention of companies being funded through the U.S. Federal Government to do business with Iran. But to the—and I appreciate your saying you would cooperate and work with the Congress. To the extent that you have not fully scrubbed your Department of the Treasury in that regard, I urge you to do so. And the only reason I make note of that is because in a recent article in *The Times* of a few days ago referring to a State Department spokesperson who had reviewed 27 of the deals in question, they said that there were some, quote, carefully constructed mechanisms of these companies to get around the law, and some other problematic cases. If you can come up with language that will help us tighten these laws, please submit that language to us, and we will make it the law so that they cannot carefully construct loopholes through which they can do business with Iran.

I just came back from Afghanistan and Pakistan, and one of the major issues there has to do with corruption in Afghanistan. And I understand, and it is reflected in your budget, that your Office of Technical Assistance is working with the Afghan government to address that. Could you comment on how that is going, ending the corruption or training, providing fail-safe mechanisms to end corruption in the Afghan government?

Secretary GEITHNER. Again, thank you for highlighting the role they play. We have a group of very talented, very brave people, frankly, working closely with the Afghan government to improve a variety of things that are basic, basic to running an effective finance ministry, Central Bank, et cetera. I referred in my statement, I think I quoted a former minister saying that the technical assistance he got from Treasury was the best technical advice he had gotten from anywhere.

This program has a great record around the world. It is tremendously valuable. It is a very, very small amount of resources with a very, very high return. And I think it would be—I couldn't do it in my statement, but we would be happy to provide more details in writing about the full extent of what we are doing, not just in Afghanistan, but in many other countries. Great record in Iraq, great record in Afghanistan, great record in countries in Eastern Europe, and not just in the areas I referred to in my testimony in preventing money laundering and terrorist financing, but in building the basic institutions of government controls, reducing corruption, building central banks, building payment systems. These are things that all governments need to operate effectively.

Mr. ROTHMAN. As you know, one of the reasons why the Afghan people, aside from the threats of the Taliban to kill their families if they didn't join them, were some of the Afghan people wanted relief from the corruption of the Afghan government and turned to the Taliban for protection from the corruption in the previous Afghan regime. So your continuing efforts are very important. And if you can keep us apprised of your efforts and the success of those efforts, we would be greatly appreciative.

And please, thank your personnel, who are demonstrating not only intellectual and scholarly prowess, but also the physical courage of being in a war zone providing all that assistance.

Secretary GEITHNER. Thank you for saying it. It is a great sacrifice. And as I said, they are not just dedicated competent thoughtful people, smart people, but they are brave to be doing it, and I really very appreciate their sacrifice, and thank you for highlighting it. Any place we are putting in substantial resources, whether we are at war or we have some other broad interest, you want to make sure that you are helping governments put in place the kind of controls to make sure they are not just feeding corruption and the resources when we need them. And so that is why it is so important to have the technical expertise of these bilateral programs funded adequately alongside what we are doing through the World Bank, but thank you for highlighting that.

Mr. ROTHMAN. Thank you.

Mrs. LOWEY. Thank you, Mr. Rothman.

We have 1 minute left for Ms. Granger.

Ms. GRANGER. The chairwoman has been kind enough to let me ask another question. I will ask it very quickly.

I was talking yesterday to our Ambassador to Mexico, Carlos Pascual, about the violence in Mexico. I know that the Treasury designated 54 members of the Gulf Cartel and the Los Zetas as specifically designated narcotics traffickers, which is part of the strategy of going after the cartels' organization network. What else can you do in Mexico to disrupt this organization and prohibit the effect of this new strategy?

Secretary GEITHNER. Of course, this is just one of the many tools we have, but it is a very important tool. Because what it does is, it deprives them of the ability to access financial resources through our institutions. And we, of course, use this program to make sure we are giving information to the next that they can use. This can be very effective.

But as you all pointed out you need to keep moving. You can catch it in one area and shut it down, and it is going to move somewhere else. So it is a constant struggle. And Stuart Levey and his colleagues work every day to make sure that they are gradually not just expanding the scope of these things but tightening them in their reach. And again, it can be very effective. It doesn't solve the problem, but it is a very effective tool.

Ms. GRANGER. Thank you very much.

Secretary GEITHNER. Chairwoman Lowey, could I just say one thing? I want to just say one thing—

Mrs. LOWEY. Go right ahead.

Secretary GEITHNER [continuing]. I said in my statement, but I want to end with this. Because, as you all said, even those of us who recognize the long commitment to supporting these institutions, these programs, you know, this is a time when one in eight Americans are on food stamps. Unemployment is 10 percent, and we have got unsustainably high fiscal deficits. And we are living with greater constraints on scarce resources than we have in decades. And this is a large increase in request, but I want to underscore something that I think you understand, but I want to make sure people understand this. The overall international affairs budg-

et of the administration is only proposed to increase 2.8 percent, just slightly above inflation.

So even though we are in a time when we are fighting two wars, we have tremendous global challenges, huge American interest in being part of that, this is a very restrained overall budget. Our piece of it, which is a very small piece of the budget, is only 5 percent of the budget. We are proposing, as you said, a substantial increase over last year, and if you look over 2 years, it is a substantial increase. But we are doing that because we are trying to be as fiscally prudent and responsible as possible, because by shifting resources more to these multilateral institutions, we are getting a much bigger bang for the American dollar. So by putting a dollar—taking a dollar from a bilateral program and putting it into a multilateral program, we have a much greater chance of having that dollar leverage commitments from other countries. And if we put them through the World Bank and others, they are leveraged further by the borrowing capacity of the World Bank.

So although our numbers are going up, we are a very small share of the overall budget. The overall budget is going up only modestly. And again, this shift toward the multilateral institutions at the margin is part of a fiscally responsible approach to substantially increasing the leverage we get for asking the American people to put up some of their taxpayers' money in support of these broad objectives.

Mrs. LOWEY. I just want to say, Secretary Geithner, I appreciate your testimony. I appreciate your closing comments. And the results are only as good as the accountability and the oversight, and we always look forward to those reports, because unfortunately, there have been many instances with bilateral aid, with multilateral aid, where that may not be the case. So we appreciate your oversight, and we look forward to following up with you. This meeting is adjourned.

Secretary GEITHNER. Thank you very much.

**House Committee on Appropriations
Subcommittee on State, Foreign Operations**

U.S. Department of the Treasury International Programs FY 2011 Budget

March 25, 2010

Questions for the Record

Treasury Secretary Timothy F. Geithner

Questions from Chairwoman Nita Lowey (D-NY)***Iran***

1. **This Subcommittee has expressed deep concern about the disbursement of funds to Iran from old development loans. In previous years, the Subcommittee has been told that this disbursement could not be stopped because the United Nations Security Council Resolution exempted humanitarian and development activities. It does not make sense to me that we would allow this funding – which is in the hundreds of millions of dollars range – to move forward without some effort to stop or slow this disbursement.**
 - **What mechanisms are in place to ensure that the funding dispersed on the old loans is used for the intended humanitarian purposes and are not diverted to other purposes?**

Two World Bank projects in Iran, approved before 2005, are still disbursing funds. These two projects help improve water and land management, meeting the UN's humanitarian and development exception. The World Bank rigorously applies its oversight and procurement requirements to these projects, and, at the urging of the U.S., has adopted additional screening procedures specifically for projects in Iran.

Regular oversight mechanisms include: site visits by the Bank's technical teams, who verify the use of funds and ensure that project objectives are being met; yearly financial audits by an independent auditor; and field review of documentation, where finance specialists verify the validity of supporting documentation provided for project expenses.

Specifically with respect to Iran, the World Bank has stated that it gives due regard to all UN Security Council Resolutions, including those relating to Iran, in accordance with its agreement with the UN. The Bank has also stated that it screens beneficiary entities as well as financial intermediaries against the list maintained by the Office of Foreign Assets Control (OFAC) of the Treasury Department.

In addition, the Bank has also stated that technical reviews of goods, materials, and equipment procured by the Bank are conducted to confirm that they do not match specifications of materials prohibited by the relevant UNSC resolutions.

- **How does Treasury follow these loan disbursements? What checks do you have in place to monitor the Bank and ensure that it's checking the legitimacy of the expenditures?**

The U.S. Executive Director of the World Bank works closely with the World Bank to ensure that the institution maintains its high standards of due diligence regarding sanctioned entities and sanctions programs.

- **What is Treasury doing to prevent further multilateral bank loans to Iran?**

We do not support sending U.S. taxpayer money to Iran and have consistently voted “No” on, and have worked hard to oppose, World Bank activities in Iran since the 1980’s. We will continue to strongly oppose any World Bank assistance for Iran. There have been no new commitments to Iran by the World Bank since 2005, and we expect no new loans to be proposed in the foreseeable future.

- **As part of the inter-agency process, what is Treasury doing to recommend that the UN Security Resolutions prohibit funding for humanitarian and development purposes?**

The Administration’s policy is to implement sanctions that target Iran’s leadership and not the people of Iran. We intend to continue our policy of opposing projects that would involve disbursements of new funds, and are working with our partners in the United Nations to develop as robust a resolution as possible in order to persuade Iran that the costs of defying the international community outweigh the benefits.

Sudan

2. **For several years, this Subcommittee has raised questions about the World Bank’s administration of the South Sudan Trust Fund and the slow disbursement of funds. The World Bank has even expressed dissatisfaction with its performance, blaming it on severe capacity constraints in-country.**

- **Considering the long-term development focus of the MDBs, do they have the capacity to carry-out the quick disbursement needs that are often critical to responding in post-conflict situations?**
- **How are the MDBs working to build capacity in fragile states to ensure some sustainability of programs?**

The MDBs have proven themselves critical actors in fragile states. For example, the MDBs have organized and financed support for Haiti in the wake of the recent devastating earthquake, and they played a similar role in numerous other countries, such as Afghanistan, the Democratic Republic of the Congo, and the Balkan states, as they emerged from conflict. The MDBs have made similar efforts in response to the food and financial crisis of recent years, making robust efforts to respond to global needs in a timely, effective fashion. The Bank’s Global Food Crisis Response program, for example, significantly reduced the average processing time for projects in order to provide poor countries with emergency assistance to offset the impacts of higher world food prices in 2008. Treasury has strongly supported these efforts, recognizing the challenges faced by the MDBs in balancing the need for significant and timely engagement against the imperative of sound stewardship of donor resources in environments where accountability mechanisms are weak.

The MDBs' toolkit in these situations is flexible and robust. Financial assistance, including quick disbursements, is of course a critical element. The MDBs provided or are providing significant assistance, including debt relief, in the situations identified above. In Haiti, for example, the World Bank and Inter-American Development Bank together plan to deliver more than \$1.2 billion in new grants and resources for debt forgiveness in the next two years. Technical assistance is also important, to enhance the sustainability and impact of financial assistance, and the MDBs prioritize this in their programming with fragile states. In Afghanistan, for example, the World Bank financed technical assistance to enhance customs administration, a project that directly contributed to a sevenfold increase in customs revenues and reduced border crossing times by 90 percent.

Overall Funding Increase

3. In this tightened fiscal environment, when the U.S. is still recovering from the global financial crisis and facing competing demands, how do you justify a 33 percent increase to international financial institutions?

U.S. support of multilateral institutions helps further the prosperity, stability, and national security of developing and developed countries alike. During a time of constrained resources at home, these investments in global prosperity remain vitally important. They not only lift people out of poverty, but also generate new economic opportunity for Americans and markets for American products globally. In addition, U.S. support of these institutions increases the effectiveness of our assistance dollars, both bilateral and multilateral. In fact, for every dollar the United States contributes to paid-in capital for the World Bank, \$26 worth of assistance is delivered.

U.S. contributions provide a bigger bang for the tax payer buck, allowing the United States to leverage significant resources from other donors for support in frontline states (Afghanistan, Pakistan, and Iraq) and other important development priorities including food security, climate financing, global health, education, and private sector development. Furthermore, in 2008-2009, the multilateral development banks (MDBs) served a critical role in helping countries withstand the financial crisis and thereby cushion the global downturn. Collectively they implemented more than \$222 billion in programs, providing vital assistance to blunt the impact of the financial crisis on the poorest.

While Treasury's request for funding for contributions to the MDBs has increased from last year's enacted level, the Administration's proposed overall international programs request—of which Treasury's portion is only 5 percent—represents a 2.8 percent increase from last year's funding. Yet it contains the capacity to yield enormous results for the United States due to the highly leveraged and effective nature of our investments.

South Africa Coal Loan

4. This Subcommittee has concerns about the pending \$3.75 billion World Bank loan for a coal-fired power plant in South Africa. While there are serious energy needs in South Africa and the region, coming on the heels of the Copenhagen Climate Conference, this is exactly the kind of loan the World Bank should no longer be doing. This loan questions the World Bank's credibility in its commitment to a real and substantive environmental agenda and raises serious concerns in Congress as to whether the World Bank is the right home for the Clean Technology Fund and the Strategic Climate Change Funds. I hope you will work to ensure the loan does not come before the Executive Board as it is currently structured. If it does, then I would strongly urge the U.S. to vote no.
- Does this loan comply with Treasury's recently released coal policy?
 - What is the formal U.S. position on the loan and what actions has Treasury taken to express U.S. environmental concerns with the loan before it is voted on?
 - When is the Bank expected to vote on the loan? What is the U.S. doing to work with the Bank, South Africa and other like-minded donors to address the environmental concerns we have with the loan and reduce the impact of this project on the environment?
 - Are there any other coal-related loans in the Bank's pipeline?

On April 8, 2010, the United States abstained on the vote by the World Bank's Board of Directors on the Eskom Investment Support Project. At that time, the United States recognized South Africa's pressing energy needs and the lack of near-term feasible low-carbon alternatives. However, the U.S. abstention reflected significant concerns about the climate impact of the project and its incompatibility with the World Bank's commitment to be a leader in climate change mitigation and adaptation. At the time, Treasury announced its view that the project is inconsistent with new guidelines on coal lending adopted by the United States in December 2009. The United States also raised concerns about other facets of the project, including the inconsistency of Eskom's procurement process with the World Bank's Procurement Guidelines, deficiencies in the environmental impact assessment, and potentially inadequate efforts to mitigate local pollution.

Over the course of several months, the United States engaged with the World Bank and the Government of South Africa to encourage resolution of these issues. We welcomed the renewable energy and efficiency components of the project and recognized both the Bank's and the South African Government's commitment to pursue a lower carbon path in the future. We are encouraged by the South African Government's commitment to use \$1.25 billion of World Bank funds to support future emission reduction measures. We are also encouraged by the government's ambitious carbon mitigation targets, and by its vision of low-carbon development.

Finally, in statements on April 8, 2010, we indicated our expectation that the World Bank will not bring forward similar coal projects from middle-income countries in the future

without a plan to ensure there is no net increase in carbon emissions. The U.S. position on this operation is posted on Treasury's website (http://www.treas.gov/offices/international-affairs/multilateral_banks/environmental_impacts.shtml).

The current World Bank pipeline for coal power projects is currently limited to one other coal power project. The World Bank is considering a 500 MW coal power plant in Kosovo that – after U.S. engagement – has been scaled back from a 2000 MW power plant. There are two other coal power plant projects in MDB pipelines: The EBRD is expected to propose in July a 600MW coal power plant in Slovenia that is associated with a shutdown of older power plants. The Asian Development Bank is expected to put forward a proposal for a 1200MW coal-fired power plant for Vietnam in late 2010 or early 2011.

Fraud, Corruption, and Transparency

5. In 2007 and 2009 the Bank conducted various reviews and announced new policies focused on creating greater transparency and increasing effectiveness of its anti-corruption and governance mechanisms within the bank.

- **What reforms are still needed to fully respond to these recommendations?**
- **What more does Treasury believe the Bank must do in order to be more transparent and open?**

One of Treasury's key priorities at the World Bank, and indeed at all the MDBs, is to promote good governance, both within the institutions and in their lending/grant operations, as well as in the countries they assist. This encompasses: 1) urging IFI management to support stronger internal controls; 2) applying the highest fiduciary standards to the projects funded by the MDBs; 3) garnering support for good governance and strengthened financial systems among G-20 and developing country governments; and 4) resisting efforts to weaken standards in order to increase aid flows.

A major Treasury-led effort resulted in the adoption by the World Bank, in 2007, of a strengthened strategy and action plan on governance and anti-corruption (GAC) despite some Board members' concern that this strategy would impede lending. As we stressed in our statement on the second annual progress report in 2009, the most important near term objective for the Bank Group should be the ongoing effort to mainstream GAC principles. We believe that the Banks' new Actionable Indicators website will prove to be a valuable tool both within and outside the Bank to focus attention on the GAC principles.

It will be important to deepen and broaden the knowledge and skill sets at the country, sector, and project levels, and we agree with the report's conclusion that greater focus is needed on producing analytically rigorous work that draws a firm connection between strong GAC approaches and sound development outcomes. The GAC strategy will be successful when every task team leader considers it part of his or her job to assure the presence of accountable institutions that can effectively deliver project outcomes. Achieving this will require the focused and intense ownership of the GAC agenda by all senior management at the Bank.

Transparency and openness starts at the top and although civil society has observer status, they are not part of any decision-making at the Bank.

- **What discussions have taken place to reform Bank governance structures to give civil society and the private sector a seat at the decision-making tables?**
- **What can the U.S. do to ensure that civil society organization representatives are full and equal participants throughout the process?**

Treasury values the perspective of civil society organizations (CSOs) on development issues and has been a strong leader in urging the MDBs to increase their openness to the voices of civil society, the private sector, and the public. Consultations are a key facet of this openness, and we have been pleased to observe a positive trend among the MDBs in adopting consultative processes ahead of major project or policy changes. In addition, Treasury has advocated for greater public access to MDB information. The recently revised World Bank disclosure policy represents a major step forward in this regard, and Treasury is pushing, through the capital increase discussions, for all the MDBs to adopt this standard.

As Treasury works with the MDBs in new areas, we have made CSO engagement a priority. For example, in the development and launch of the Global Agriculture and Food Security Program (GAFSP), a World Bank administered trust fund, we pressed for and obtained agreement to include both donor country and IDA country CSO representatives as members of the GAFSP, with full voice in the trust fund's deliberations.

International Development Association (IDA)

- 6. The budget includes \$1.3 billion for the International Development Association or IDA, the World Bank's concessional lending facility. In April 2009, the World Bank's Independent Evaluation Group released a report that found major weaknesses in IDA's ability to manage the risk of fraud and corruption in IDA lending. The study also found significant concerns related to fiduciary processes and management oversight.**

- **What reforms has the World Bank introduced to address these concerns?**

World Bank Management adopted a phased approach to implementation of the remedial action plan. Phase I, which has been completed, focused on fraud and corruption at both institutional and transaction levels, and on fiduciary controls in projects. Phase II, which began in February 2010, includes a review of the adoption and roll out of the tools to mitigate the risk of fraud and corruption and progress on other action items in management's action plan. Phase III, which is scheduled for September 2010, will test the operating effectiveness of the controls implemented under management's five point action plan. The Internal Audit Department and the Independent Evaluation Group will do a review of phase III. A final report is expected in late fall 2010.

- **What is the U.S. Treasury doing to ensure greater transparency and oversight of IDA programs?**

We are working through the U.S. Executive Director's Office at the World Bank to ensure that the steps recommended by IEG's Independent Assessment to strengthen IDA's internal controls are fully implemented. We will continue to press the Bank to tackle internal control risks and the anti-corruption agenda at all levels.

We fully support the Bank's move toward greater transparency through its new Access to Information Policy. This policy represents a fundamental shift in the Bank's approach to disclosure of information. Enhanced transparency and accountability through the disclosure of information will allow for greater scrutiny by civil society of Bank-supported projects.

IDA Replenishment

7. **Every three years, the U.S. negotiates replenishment with IDA.**
 - **What is the status of IDA-16 negotiations, which will finance IDA from July 2011 through June 2014?**
 - **What are the Administration's key priorities for IDA-16?**
 - **Was any agreement reached among major IDA-donors at the March 2010 meeting on IDA's strategic direction?**

IDA, as the largest provider of multilateral development assistance to the world's poorest countries, is a key partner in promoting economic growth, helping these countries meet global challenges, and reducing poverty. The United States has pushed significant reforms in IDA in recent years, leaving it well positioned to demonstrate and deliver results on the ground. Over the past two years, IDA has helped stabilize the poorest countries in the wake of the global financial crisis and is responding quickly to Haiti with financial and technical assistance to help the country recover following the devastating losses suffered in the January earthquake and rebuild over the medium term.

The IDA-16 replenishment negotiations began in March 2010, and are expected to conclude in December 2010. The next meeting will be held in mid-June in Bamako, Mali. The United States will continue to press for reforms in the negotiations for the IDA-16 replenishment to: enhance results measurement and transparency; integrate climate change into IDA's country engagement; integrate gender more effectively; increase focus on fragile states; and promote regional integration, particularly in Africa.

At the first IDA-16 meeting in March, Deputies discussed strategic directions and agreed that the fundamental challenge is to accelerate progress on achieving positive development outcomes in IDA countries, particularly in Africa. The overarching focus of IDA-16 will be improving development results, with specific emphasis on special themes of fragile states, gender, crisis response, and climate change. These themes, largely in line with U.S. policy objectives, highlight the importance of IDA's role and leadership in tackling the most

challenging and important development issues facing countries today.

Changes to the Executive Board

8. **The World Bank has worked to enhance the participation of developing and transition countries in decision-making. A new Executive Board seat was added for Sub-Saharan Africa which increased their voting power to 44, creating a more equitable balance between developed and developing countries.**
- **What impact will these changes have on the ability of the U.S. to influence policy and individual decisions at the World Bank?**
 - **How would you assess the degree of influence that the U.S. has in the international financial institutions?**

The United States has had and will continue to play an unrivaled leadership role in the MDBs. In part, this is because the United States has large shareholdings in each of the institutions, although large arrears are reducing recognition of U.S. contributions to the MDBs.

The United States has supported increasing the voice and participation of developing countries to reflect their growing economic weight and influence. This support has extended to providing a new chair for Sub-Saharan African countries on the World Bank Board, a move that is particularly important to ensure that the poorest countries have an adequate voice in the institution. We do not expect any diminution in our voice or influence on the Board as a result of the additional African chair.

Clean Technology Fund

9. **Last year, Congress approved the first U.S. contributions to the Clean Technology Fund and to the Strategic Climate Change Funds with significant limitations and requirements on oversight and the type of projects that could be supported.**
- **Can you please describe the current level of grant-making at the Funds?**

The \$4.3 billion Clean Technology Fund (CTF) provides grants, highly concessional loans, and guarantees. For private sector operations, other products such as debt, insurance, and equity are also available. The CTF seeks to unlock clean energy investment in the major emitting countries, which are for the most part middle income developing countries, and therefore grants are used on a somewhat limited basis, primarily for technical assistance, capacity building, and the preparation of country-led clean technology investment plans. To date, the CTF has used its \$4.4 billion funding base (i.e., pledged contributions) to mobilize over \$40 billion dollars in planned investments for clean energy, energy efficiency, and sustainable transport in support of thirteen country-led investment plans. It has also approved \$430 million of funding for the first six projects developed under those plans.

The \$758 million Pilot Program for Climate Resilience (PPCR), under the Strategic Climate Change Fund (SCF), provides both grants and highly concessional loans. PPCR funding for additional costs directly associated with technical assistance and institutional adjustment should be provided through grants. In March 2010, the governing committee approved the first PPCR funding proposal, a \$1.5 million planning grant for Zambia to use for the development of its investment strategy.

The \$480 million Forest Investment Program (FIP) will provide concessional finance in the form of grants, and contingent and concessional loans, guarantees, and equity. All of these will include a grant element tailored to the identifiable additional cost of the investment, or the risk premium required, in order to make the investment viable. The grant element also will be tailored to provide the appropriate incentive to facilitate the scaled up deployment of forestry investments or investments positively impacting forest ecosystems. FIP expects country-led pilot plans to be under development and planning for grant proposals to begin in the coming months.

The \$292 million Program for Scaling-Up Renewable Energy in Low Income Countries (SREP) will operate exclusively in the poorest countries; therefore, when the financing modalities for SREP are agreed to in the coming months, it is highly likely that there will be significant, if not exclusively, grant finance available for public sector programs. Additionally, both public and private sector programs will be supported by grants for technical assistance, capacity building, and the preparation of country-led renewable energy investment plans. SREP is the last of the SCF programs to begin operations, but with an ambitious 2010 work program, it expects country-led pilot plans to be under development by this fall.

- **What inter-agency collaboration is in place to ensure that Fund-supported projects complement bilateral programs and that these programs are leveraging resources from new partners?**

Interagency collaboration on the Climate Investment Fund (CIF) is frequent and effective. Each CIF program begins with the development of a country-led strategy during one or two joint planning missions hosted by that recipient country. USG country teams – including USAID as well as, at times, representatives of the State Department or USTDA – participate in these planning exercises to harmonize the multilateral activities with our bilateral assistance strategy for that particular country. Other bilateral and multilateral assistance agencies also participate, and many co-finance CIF programming. For example, in Indonesia, the U.S. bilaterally-sponsored Indonesia Clean Energy Development Program (ICED) and the CIF-sponsored Clean Technology Fund Investment Plan have been well coordinated, with the CTF program focusing on the end side of the project development processes, financing the renewable and energy efficiency projects; and the ICED working on the front side of the project development, from resource assessment up to the presentation of bankable project proposals for funding.

We have also implemented a strong process for plan and project review which includes USAID, the Department of Energy, the Department of State, EPA, and USTDA. Finally, when CIF projects come to the multilateral development bank (MDB) boards for approval, the full interagency group that reviews MDB projects reviews these CIF projects.

- **Have other donors stepped forward to provide funding for these funds?**

The CIF are currently supported by thirteen contributing countries, including the United States. The pledges and funds contributed so far for each are detailed in the table below.

Climate Investment Funds (all amounts in USD)		
Country	Pledged	Contributed
Australia	131.9	68.9
Canada	86	73
Denmark	25	0
France	302	0
Germany	814	0
Japan	1200	400 ¹
Netherlands	76	0
Norway	173	0
Spain	119	43
Sweden	87	38
Switzerland	20	0
UK	1244.9	451.2
U.S.	2000	375
Total	6278	

¹ Payment is expected in next 30-60 days.

- **The framework documents for these funds stated that they would sunset in 2012 following negotiations in Copenhagen. In light of the on-going discussions related to the Copenhagen Accord, do you still expect these funds to sunset and for other Funds to be established which more clearly support the Accord agreement?**

The language in the CIF sunset clause does not relate specifically to the year 2012 or to the negotiations in Copenhagen. Rather, the operative language states that “the [CIF] will take necessary steps to conclude its operations once a new financial architecture is effective. The Trustee will not enter into any new agreement with contributors for contributions to the [fund] once the agreement providing for the new financial architecture is effective. The [appropriate CIF governing] Committee will decide the date on which it will cease making allocations from the outstanding balance of the CTF.” In addition, the sunset clause notes that, “if the outcome of the UNFCCC negotiations so indicates, the [appropriate CIF governing] Committee, with the consent of the Trustee, may take necessary steps to continue the operations of the [fund], with modifications as appropriate.”

The Administration supports the establishment of a Copenhagen Green Climate Fund as an operating entity of the financial mechanism of the UNFCCC, as called for in the Copenhagen Accord, and the United States is taking a leading role in all deliberations, both through UN channels and otherwise, that will lead to decisions regarding the establishment of the Fund. It is expected that this new Fund would be the next step in the evolution of multilateral climate funds, building on the significant knowledge and lessons learned during the lifetime of the CIFs.

Multilateral Food Security Fund

10. The budget request includes \$408 million for a U.S. contribution to a new Multilateral Food Security Fund. While the Framework for the Fund was approved in January, very few details are available at this stage.

- **The Obama administration has focused on an ambitious Global Hunger and Food Security Initiative. How will Treasury ensure strong coordination of the Trust Fund's activities with the Administration's Food Security Initiative priorities, such as improving nutrition status and investment in country-led plans?**

The trust fund, formally known as the Global Agriculture and Food Security Program (GAFSP), is an integral component of the Administration's Global Hunger and Food Security Initiative and full coordination between our bilateral and multilateral investments will be achieved in several ways.

First, our bilateral programs and the GAFSP support the same overarching goal – halving the proportion of the population that experiences hunger and poverty through development of the agricultural sector in the poorest countries.

Second, GAFSP and our bilateral programs will focus on a similar set of countries – poor countries with high levels of food insecurity that are putting in place comprehensive agricultural development strategies for which their governments are taking ownership and contributing their own resources.

Third, investments will be aligned at the country level to help ensure the greatest impact. We are working closely with Administrator Shah's office and the GAFSP steering committee to make sure that USAID mission directors and country directors of the GAFSP supervising entities consult closely on what investments the trust fund might make as part of a country's agricultural development strategy. This will limit the potential for duplicative investments.

- **Is this a World Bank Fund or is the Bank merely the Trustee? If the Bank is just the trustee, then who is the responsible individual or entity for its operations and grant-making?**

The World Bank is the trustee for GAFSP. For the public sector window, a Steering Committee initially composed of representatives from donor and recipient countries will be the entity

responsible for making decisions about the allocation of trust fund resources, based on investment proposals submitted by potential recipient countries. Design, appraisal, and implementation of proposals approved by the Steering Committee will be carried out by the recipient country with the help of a supervising entity (e.g., multilateral development banks and the International Fund for Agricultural Development (IFAD) for investment and technical assistance, the Food and Agriculture Organization and World Food Programme for technical assistance). Funds allocated for the private sector window will initially be implemented by the International Finance Corporation (IFC), consistent with the relevant IFC guidelines, policies and procedures, and in line with an annual business plan endorsed by the GAFSP Steering Committee. Over time, we expect that the private sector windows of the other eligible supervising entities will come forward with implementation plans for the private sector window.

- **Why was this Fund housed at the Bank and not at existing institutions with agriculture expertise, such as the International Fund for Agriculture Development?**

The Bank has unique strengths that make it a good fit for administering the fund, such as its universal presence in the poorest countries in the world, its role as a leading lender in the agricultural sector in many countries, and its extensive experience administering other trust funds. In addition, the World Bank has significant agricultural expertise and a large staff with technical skills related to agricultural development.

IFAD and the African Development Bank, among the other supervising entities for the Fund, will also play an important role in assisting countries to design, appraise, and implement many of the projects financed by the GAFSP.

- **Will the Fund provide grants or loans? There is a private sector window which will provide loans. Do you think that is appropriate in this environment and will the U.S. contribution support this loan window?**

The GAFSP's public sector window will only provide grants to recipient countries – an appropriate method of financing given the U.S. desire to avoid a rapid re-accumulation of debt in the wake of the significant debt relief initiatives of the last decade.

The GAFSP's private sector window will use debt and equity instruments to target smallholder farmers and micro-, small-, and medium-sized enterprises in the agribusiness sector which typically have difficulty attracting commercial financing, and are therefore hampered in their ability to finance crops and invest in expansion. Those end users will be reached either directly or indirectly through banks, financial intermediaries, or traders.

Lending to private sector entities is an appropriate way to help support the development of a more robust private sector in the agricultural sectors of the likely recipient countries. A lack of access to credit and other financial services is a major obstacle to improving the productivity of smallholder farmers and to supporting the expansion of small agribusinesses.

The United States intends to make a contribution to the private sector window and we are currently in discussions with other GAFSP donors and the IFC about the amount and hope to resolve this question before the June G-8 and G-20 Summits in Canada.

- **As a major donor and leader, what is the United States doing to ensure meaningful civil society engagement in country-led strategies as a key component of the Trust Fund's planning, decision-making and implementation processes?**

The United States believes that civil society -- particularly that of the poorest countries in which the fund will invest -- should have an important role in this trust fund. Civil society's involvement in the steering committee will increase the transparency of decision-making and ensure that the interests of small farmers are fully considered. We also recognize, however, the challenges of including civil society participation in the trust fund, not the least of which is ensuring that civil society members of the steering committee represent the broad range of civil society viewpoints and not just the narrow views of their own institution. As of this writing, there has been agreement within the GAFSP Steering Committee to include one donor country civil society organization (CSO) representative, one IDA country CSO representative, and one alternate IDA country CSO representative, as Members of the Steering Committee with full voice and participation in Steering Committee deliberations.

As important, the Steering Committee will require that the design, appraisal, and implementation of approved proposals incorporate meaningful dialogue and engagement with civil society. Supervising entities will include in their reporting on the impacts of proposals the steps taken by the recipient country government to consult with interested stakeholders and incorporate their concerns into the design and implementation of the project.

- **Is the U.S. the largest donor to the Fund?**

The United States, if it receives the full amount of the \$408 million request in FY 2011, would be the largest donor to the Fund. Currently, with a contribution of \$66.6 million for FY 2010, the United States is the third largest contributor to the Fund behind Canada (\$230 million) and Spain (\$95 million). The Gates Foundation has contributed \$10 million of its \$30 million pledge and Korea is expected to make the first contribution of its \$50 million pledge sometime in the second half of 2010.

- **Why is the first full U.S. contribution in fiscal year 2011 so large?**

The size of the requested appropriation in FY 2011 was influenced by a number of factors including the need to make a significant and credible contribution that would leverage resources from other donors and the likely demand for resources in the first year of the trust fund.

We believe that the initial size of the trust fund will have a cascading impact on the future size, mandate, and credibility of the fund. Without a large initial contribution, we are unlikely to convince other donors to contribute at scale or address some of the costly and critical parts of a comprehensive food security strategy, particularly transport and irrigation infrastructure.

In addition to leveraging resources from other donors, a large contribution in fiscal year 2011 is important because of the likely demand from recipient countries in the first year of operations. Approximately 12 African countries are well advanced in their country investment plan development process and are likely to be ready to submit investment proposals over the next six to twelve months.

The size of the FY 2011 request for the trust fund was decided through interagency discussions in the context of the broader Administration food security initiative.

- **Who are the other donors and are you concerned that there are so few?**

Canada, Spain, the Gates Foundation, and Korea are the other donors to the trust fund and we are actively pursuing other donors.

We expect that other countries will contribute to the fund as it becomes operational. Since Secretary Geithner's testimony, South Korea agreed to contribute \$50 million to the trust fund – half of its total L'Aquila pledge and the most proportionally of any of the initial donors. This is a significant milestone for the trust fund as it demonstrates its potential to mobilize resources from non-traditional donors.

We believe the GAFSP launch, which was hosted by Secretary Geithner on April 22, made a forceful statement about our own commitment of current resources from the FY 2010 budget and future resources from the FY 2011 budget.

- **Who is working on resource mobilization for the Fund?**

In addition to the GAFSP launch event, the United States, Canada, and Spain have also used G-8 and G-20 events to fundraise for the GAFSP. Specific targets have included: a meeting hosted by Canada on L'Aquila commitments in Ottawa in mid-April; the G-20 Finance Ministerial on the margins of the IMF/World Bank Spring meetings in late April; the G-8 Development Ministerial in Ottawa in late April; and will include the G-8/G-20 summit in June. Further, the GAFSP will partner and work closely with civil society organizations to encourage countries to implement their L'Aquila commitments. Finally, vocal support from President Obama,

Secretary Geithner, Secretary Clinton, and Administrator Shah following the event will help convince other potential donor countries of the value of coming forward with early commitments to the GAFSP.

Global Environment Facility

11. The budget request for the Global Environment Facility is nearly doubled from prior year commitments. The Congressional Budget Justification states that this request is consistent with our environmental and climate change priorities and that the U.S. was able to achieve “important policy reforms” that will improve GEF’s overall effectiveness with regard to “country-owned business plans” and “resource allocation.”

- **Can you briefly outline some of the policy reforms?**

Policy reforms include:

- *Implementation of a performance-based allocation system known as the Resource Allocation Framework (RAF):* This system prioritizes investment to countries that have demonstrated strong performance and that have a high potential to generate global environmental benefits. The RAF governs the allocation of resources in the areas of biodiversity, climate change, and land degradation which account for over 70 percent of GEF investment. Recent reforms to the RAF also decreased to 11 percent of the maximum allocation to constrain flows to large middle income countries and raised the base amount that small countries can access for their own benefit;
- *Streamlining the cumbersome GEF project cycle while preserving project quality and financial accountability:* This includes putting in place a cancellation policy, placing all GEF Executing Agencies (including the regional development banks, IFAD, FAO, and UNIDO) on a level playing field, and instituting a more streamlined project cycle (which still preserves Council power to reject projects). The project cycle has been decreased from 44 months to 16.5 months;
- *Revision of the operational strategies for GEF’s areas of activity (e.g., climate change, biodiversity, persistent organic pollutants, etc.):* This will enable the institution to better target and achieve results;
- *Establishment of a voluntary national portfolio identification process:* This will create business plans for countries with respect to their environmental goals ensuring country ownership in the GEF programming process;
- *Implementation of a complete results management framework;* and
- *A more transparent and competitive system through which GEF Implementing and Executing Agencies compete for GEF projects.*

- **How will GEF effectively use this large funding increase, if other donors agree to a commensurate increase in their contributions?**

The effectiveness of the GEF as a financial mechanism was significantly increased by the policy reforms implemented under GEF-4 and planned for GEF-5. Specifically the above reforms mean that funding is approved quickly, without sacrificing a rigorous technical review process. Funding is directed to countries that perform well as a starting point, and implementing agencies must compete for resources, which raises the quality of the proposals. With these reforms in place, the process is more country-owned, leading to a more long term buy-in to address environmental issues. The GEF has created a streamlined process for delivering scaled-up resources efficiently and effectively.

Under the GEF-5 period (FY11-FY14), the GEF will have \$3.5 billion in new donor resources. Of these resources, 34 percent will go to climate change mitigation activities, 30 percent will go to biodiversity activities; 10.5 percent will go towards international waters; 10.5 percent will go towards chemicals; 10 percent will go towards land degradation and 5 percent will go towards other programs such as the GEF small grants programs.

A portion of GEF funding is currently allocated for climate change provisions.

- **What role will the GEF play in implementing the programs and agenda outlined in Copenhagen?**

The GEF is, and will continue to be, an operating entity under the financial mechanism of the UNFCCC. Treasury feels that the GEF has a particular strength in terms of capacity building and technology transfer, including demonstrating innovative technologies. Going forward, we would like to see the GEF play a complementary role to other climate funds, based on these comparative advantages. However, we do not see the GEF as the sole financial mechanism for climate mitigation, forestry, and adaptation.

- **Is the increased funding for GEF part of the U.S. pledge of “scaled-up, new and additional” funding presented in the Copenhagen Accord?**

Yes. The GEF integrates its financial support into larger projects financed by the MDBs and UN agencies in conjunction with national governments so that global environmental concerns are integrated into national development efforts. In this sense, all of the funding to the GEF is new and additional to development assistance, the main concern of developing countries with respect to financial assistance. The U.S. contribution to the GEF-5 replenishment is as part of a significant increase in climate finance as part of fast start finance commitments in the Copenhagen Accord.

General Capital Increases (GCIs) at the Multilateral Development Banks

12. In November 2008, the G-20 leaders agreed to review the capital adequacy of the multilateral development banks and determine whether each institution required a general capital increase. Some institutions, such as the Asian Development Bank, had planned capital increases prior to the global financial crisis. The World Bank and other banks began this review in 2009. Now many are arguing that increased demand for loans in the wake of the global financial crisis require capital increases between 30% and 200%.

The U.S. has agreed to a GCI for the Asian Development Bank and this issue was discussed at last week's Inter-American Development Bank meeting and will be a topic of conversation at the April World Bank meeting.

- **In light of all the competing demands and our own domestic needs, what is Treasury's current thinking on the merits of these requests?**
- **To what extent is the U.S. using these conversations to call upon the World Bank and the regional development banks to institute greater accountability reforms, and reassess their respective roles and methods of cooperation?**

Treasury is actively engaged in shareholder reviews of the adequacy of MDB capital. We have agreements in principle with the Inter American Development Bank (IDB), the European Bank for Reconstruction and Development (EBRD), the World Bank, and the African Development Bank (AfDB).

These agreements in principle reflect our strong view that the MDBs continue to provide substantial leverage of U.S. resources and serve vital U.S. interests by fostering economic growth and opportunity around the world, stabilizing frontline states, addressing climate change, strengthening food security, and assisting the poor.

Critical to our approach in the negotiation of capital commitments has been to make robust reforms a necessary condition of any commitment by Treasury to seek funds from Congress. Although the specific reform priorities and implementation methods vary at each institution, we have focused on a comprehensive set of reforms that will: instill stronger financial discipline through adoption of comprehensive income models; strengthen governance and accountability through new policies in areas like information disclosure and inspection mechanisms; and enhance development impact and effectiveness through adoption of stronger results frameworks and focused strategic frameworks. Many of our priority reforms are directly responsive to issues raised during extensive consultations with Congress.

In addition, U.S. contributions have extraordinary leveraging capacity. For example, a U.S. commitment to the Asian Development Bank (ADB) of \$535 million over five years would leverage roughly seven times that amount from other shareholders and enable the Bank to

provide more than \$7 billion per year in new loans. This increase is vital to ensuring continued support in a region where 877 million people live on less than \$1.25 a day. Absent this new capital, recent lending levels of over \$11 billion per year would fall to only \$4 billion per year.

As we proceed toward formal commitments to seek funding from Congress in the context of the FY 2012 budget, we will provide a report on the details of the commitments for each institution, including the detailed reform agendas adopted by the institutions.

African Development Fund (AfDF)

13. The fiscal year 2011 budget requests \$155.9 million for the third and final installment of the eleventh replenishment.

The U.S. Department of the Treasury has shared significant concerns about the African Development Fund in the past – including the lack of a results framework, the inability to manage the loan and grant windows appropriately, and overall management issues.

- **As the U.S. looks forward to negotiations on the next replenishment, what efforts are currently underway to address these concerns?**
- **What impact has the Fund's efforts had on the economic crisis in Africa?**
- **What further measures, if any, should the Fund take in response to the crisis?**

Negotiations for the Twelfth Replenishment of the African Development Fund (AfDF) are well underway; they began in October 2009 and are set to conclude in July 2010. We have a much more positive outlook on AfDF-12, as the African Development Bank has followed through on a set of significant institutional reforms, agreed in AfDF-11, aimed at improving the Bank's strategic focus and attention to development results. For example:

- The Bank has recruited high quality staff into the new position of Chief Operating Officer, the new Department of Quality Assurance and Results, and a reinvigorated independent evaluation office.
- The Bank has developed a set of institutional results indicators including such things as frequency of supervision missions, timeliness of independently-verified project completion reports, and staff vacancy rate. There are targets for each indicator and management reports to the Board semi-annually.
- The Bank has developed a core set of indicators for project outputs (e.g., kilometers of roads paved) and country development outcomes (e.g., percentage of rural population with access to an all-season road), and reported on development results at the Mid-Term

Review of AfDF-11 in October 2009. The Bank will refine this results framework for continued use under AfDF-12.

- The Bank has instituted cross-complex “readiness reviews” using consistent standards of project quality to improve project design.
- Under AfDF-11, the African Development Fund limited its strategic focus to infrastructure, governance, and regional integration, leaving key areas like basic education, health, and traditional agricultural extension projects to other donors with stronger comparative advantages. A limited strategic focus is appropriate in light of the Bank’s small size and human resource capacity.

While progress on reforms has been stronger than anticipated, the effort to improve quality and results requires continuous effort. AfDF-12 negotiations have focused on deepening and consolidating reforms. One area where strengthening is required, for example, is the Bank’s plan for decentralization. Mid-course corrections are needed to ensure that field offices have an appropriate mix of skills and delegations of authority and can make strong contributions to improving development outcomes.

Regarding its response to the global economic crisis, AfDF increased resource flows to low-income countries through (1) flexibility in reprogramming funds from existing projects and tapping funds from cancelled projects for crisis response purposes; and (2) front-loading resources in 2009. As a result, loan approvals rose 40 percent to \$1.5 billion and loan disbursements rose 53 percent to \$2.7 billion, relative to 2008. The Bank’s infrastructure and budget support lending helped member countries maintain social safety nets. While vulnerabilities remain, the IMF projects GDP growth in Africa to recover to 4.5 percent in 2010. AfDF can best assist low-income countries through high quality infrastructure and governance projects which improve countries’ resilience to crises, as periodic economic shocks are unfortunately the norm for many African countries.

Asian Development Bank (ADB)

14. On May 12, 2009, the Board of Governors of the Asian Development Bank approved a capital increase of up to 200% for the Bank. For fiscal year 2011, the budget requests \$106.6 million as the first payment of the U.S. five year commitments, even though the increase has not yet been authorized.

- **Developing countries in Asia have fared well since last spring when the capital increase was approved. In January, the IMF estimated an increased growth expectation for the region. Given this revitalized regional growth, what is your analysis of the expected demand for Bank loans and the need for our continued support of the capital increase?**
- **What reforms did the Bank agree to during negotiations for this capital increase?**

On average, demand for ADB loans from countries in the region is 30-40 percent higher than what the ADB can provide; this has been true irrespective of the current business cycle.

The ADB's overall lending envelope is driven by the bank's risk bearing capacity, not the demand from borrowers. The ADB's lending from its Ordinary Capital Resources window – to which the general capital increase applies – will peak in 2009-2010 at an average of \$12 billion annually, and will gradually decrease to \$10 billion annually by 2015. This reduction in annual lending commitments is necessary to maintain a certain, board-approved level of risk bearing capacity. Without a capital increase, lending from the ADB would have declined to \$4 billion annually starting in 2010, which we do not believe is a sufficient amount of capacity given the needs of the region and the quality of the ADB's development assistance.

Our continued support of the capital increase is necessary because the Asian Development Bank is an important tool for achieving U.S. policy priorities in the region. The ADB's critical work in Pakistan, for example, actually exceeds the level of annual commitments from the World Bank there. In addition, it is a major source of support for Indonesia, which is the world's most populous Muslim nation. Finally, as part of the GCI agreement with the ADB, the Bank tripled its net income allocation to the Asian Development Fund, which significantly increases the amount of resources available for Afghanistan.

Regarding reforms, we worked closely with key stakeholders – including Congress and civil society – on a package for reforms to be adopted in tandem with the capital increase. These reforms are in the areas of improving environmental safeguards, strengthening anti-corruption, increasing assistance to the poorest in the region, upgrading risk management, professionalizing human resources, and developing new relationships with the more affluent countries in the region. We made adoption of this reform agenda a condition of our commitment last year, and we are now closely monitoring the ADB's implementation of these reforms.

Low-cost Asian Development Bank lending to China has been a long-standing Congressional concern.

- **Can you describe the current lending to China through the Asian Development Bank? Do you expect that the Bank will reduce this lending?**
- **Is the Bank seeking to reshape its relationship with China and will China become a donor to the Bank?**

The U.S. has been the leading voice for MDBs to reprioritize lending portfolios with China. China is already a donor nation to the Asian Development Fund, and we are pressing China to increase its support for the region's poorest countries through the Fund.

First, it is important to note that China does not receive subsidized lending from the ADB and can effectively borrow on similar terms, or at times better terms, from other sources.

Even so, we have consistently pressed the ADB to reduce its sovereign lending to China over the medium term and direct its current efforts in China towards public goods, such as environmental sustainability, and inclusive, pro-poor growth in regions not touched by the Chinese economic boom. As such, the ADB's strategy with China emphasizes public goods and inclusive growth. In the long-term, the ADB expects its relationship with China to primarily focus on development innovations and knowledge management.

The ADB has deliberately refocused its loan portfolio in China away from a heavy concentration on the booming coastal provinces, which have benefitted most from the opening of China's trade system, to the relatively poorer interior provinces. Since 2004, new commitments to China have been almost exclusively to the benefit of the interior provinces, rising above 90 percent of new commitments.

Sectoral lending to China is more balanced than in the past. The ADB's traditionally heavy focus on transportation and industry is now balanced against a larger focus on rural development and environmental sustainability. In addition, the ADB increasingly has been focusing on projects that support basic human needs, such as access to clean water and health facilities.

The fiscal year 2010 conference agreement withheld 10% of the U.S. contribution to the Asian Development Fund until Treasury reported to the Appropriations Committee on steps that the Bank is taking to improve internal management controls related to fraud and corruption.

- **What actions has the Bank taken in these areas so far?**
- **What reforms is the Administration seeking in order to improve anti-corruption efforts at the Bank?**

We have been closely monitoring the information technology fraud case. To date, the ADB has strengthened the supervisory environment and human resources practices to eliminate the enabling environment for fraud. This includes a series of personnel and procurement actions to reduce the risk of corruption. In addition, the ADB has undertaken an independent and external review of the information technology department, including its governance structure. That review is scheduled to be concluded soon. Finally, the ADB has hired private investigators and retained external legal counsel to seek restitution of the funds of which the ADB was defrauded.

As part of the general capital increase agreement, the ADB is taking steps to improve the quality of internal controls, particularly in anti-corruption. ADB made good progress in improving internal governance in 2009 through the separation of the Integrity Division from the Office of the Auditor General and the establishment of the Office of Anticorruption and Integrity, which will promote independence and impartiality of work and resource allocations. In addition, the ADB is taking positive steps to improve its public communications and disclosure policies to increase transparency, including increased disclosure of firms debarred from ADB procurement.

World Bank Lending

15. The International Bank for Reconstruction and Development (World Bank) lends to middle income countries. Last October, World Bank President Robert Zoellick told the IMF/World Bank Annual Meeting that “The World Bank Group has responded vigorously to the global crisis. IBRD lending in the fiscal year ending June 2009 hit a record high of \$33 billion, almost triple that of a year ago and we expect a new record of \$40 billion this fiscal year.” Other international financial institutions have also increased lending significantly in response to the financial crisis.

- **In light of the large volume of lending last year and projected for next year, how is the World Bank able to monitor the use of its funds, and ensure its safeguard and accountability policies and procedures are adhered to?**

The United States, in conjunction with the G-20, called on the MDBs to increase lending during the financial crisis by \$100 million. Managing this new volume of lending is the critical task that faced the MDBs in the past year, and will remain their chief priority in the year ahead. The MDBs are committed to delivering this lending in ways that are consistent with their usual high standards for social, environmental, and development outcomes. Treasury believes the MDB response to the financial crisis has been quick, effective, and commendable.

With respect to safeguards, we note that a substantial portion of the new crisis-response lending is in areas which do not have significant safeguard implications, whether it is investment lending or budget support. In any case, the World Bank’s social and environmental safeguard requirements remain in place and the Bank continues to draw on expert staff and rigorous procedures to ensure that requirements are met. The World Bank’s new standard-setting approach to disclosure allows for greater transparency, accountability, and public oversight of the World Bank’s support and programs.

Transparency, Accountability, Results and Development Effectiveness

16. Mr. Secretary, because of the complex nature of the international institutions, many members of Congress are not familiar with the details of how they work. It would be valuable for you to provide for the record a detailed accounting of how the institutions operate and how the U.S. monitors International Financial Institution activities and use of resources.

- **Specifically, at the World Bank, what are the policies, procedures and instruments that are used to develop, approve, implement and assess projects and policy loans?**
- **How are investment and policy sector loans monitored, appraised and audited?**
- **How are results measured and evaluated?**
- **How is the World Bank’s portfolio and investments monitored and evaluated?**
- **How does the U.S. oversee the operations of the World Bank and other International Financial Institutions?**

MDB lending is subject to social, environmental, and fiduciary standards and safeguards, many of which have been adopted as a result of U.S. leadership in these institutions. These standards are articulated in MDB policies that are generally publicly available and form the basis for the internal procedures and instruments through which the MDBs work.

Project and policy loans are both appraised and monitored in similar fashion. MDB staff work closely with developing country authorities to define monitorable projects that have clear development objectives. MDB staff then monitors national execution of these projects, which are subject to audit and evaluation, against their objectives and applicable Bank policies and procedures.

Development results are measured at the project, country, and institutional level, the latter of which includes portfolio-level results. Treasury has been instrumental in pushing the MDBs to increase the comparability of metrics, and MDBs have made major progress in recent years, which should allow for greater learning from projects and greater accountability at the institutional level. Treasury is pushing in capital increase discussions to see the MDBs provide new levels of access to project-level results during project implementation.

Because evaluation is critical to learning and enhancing development effectiveness, each MDB has established an independent evaluation office. Treasury strongly supported the creation of these offices, which now produce a steady stream of high-quality, public evaluation of MDB efforts at the project, sector, country, and portfolio levels.

The United States oversees the MDBs through its participation in the MDB Boards of Governors and Executive Directors. The Governors provide periodic (generally annual, but twice-annually in the case of the World Bank), high-level oversight and direction of the MDBs, while Executive Directors oversee the MDBs' day-to-day affairs.

Gender

17. For more than two decades, the World Bank has proactively worked to integrate gender into its programs and has recently released a very thorough evaluation of its gender policy. The findings of the evaluation, while affirming the appropriateness of the policy, highlighted that much more is needed to integrate gender comprehensively across the World Bank's programs, with recent declines from 2006-2008.

The evaluation made several recommendations, including clarifying and expanding the mandate at the country level, establishing a results framework to facilitate an outcomes approach to gender integration, and management accountability.

- **How are the recommendations from the evaluation moving forward within the Bank?**

- **How is the U.S. championing these efforts and what meaningful changes do you expect to see in the near future?**

I agree that the World Bank has been proactive in integrating gender into its programs. An important new focal area is economic empowerment. As is emphasized in the March 2010 World Bank report titled “Investing in Gender Equality,” the progress that developing countries have made in girls’ education has not translated into higher economic participation by women in many countries. The Bank is therefore intensifying its efforts in “hard” sectors such as infrastructure and private sector development, and is working with borrowing countries to improve women’s legal status.

The recent comprehensive evaluation provided useful recommendations and we have urged management to apply them to strengthen further the Bank’s effectiveness. Gender is a “special theme” of the upcoming International Development Association (IDA) replenishment negotiations, and the Bank is proposing to build a results framework using indicators for project beneficiaries that would be measured in all IDA-financed projects. The Bank is also developing sector-specific indicators to integrate gender considerations across Bank operations. To be effective, indicators require adequate and reliable data, and the Bank has been a leader and funder of efforts to improve the use and collection of gender-disaggregated statistics. We also agree with the Bank’s intention to offer technical assistance in building new indicators into project monitoring and evaluation systems. By taking these steps and setting targets for gender coverage in priority economic areas, we expect the Bank to play an important role in promoting gender equality in all facets of economic activity.

Questions from Rep. Kay Granger (R-TX)***International Monetary Fund Gold Sales***

- 1. The IMF conducted a gold sale last fall, how much was raised from this sale? Was it more than estimated given the high price of gold?**

The IMF's strictly limited sale of 12.97 million ounces of gold is on-going and has yet to be completed. As of January 31 (the most recent public data available), the IMF had sold approximately 6.82 million ounces through off-market transactions with the central banks of India, Sri Lanka, and Mauritius. All gold sales are done at prevailing market prices. After accounting for the gold's book value, realized gains from these sales are SDR 3.096 billion or \$4.724 billion at the current SDR exchange rate.

Proceeds from the gold sales have been strong so far due to the relatively high market price of gold. However, the IMF must still sell almost half of the agreed upon quantity of gold. Selling the remaining portion of gold likely will occur over an extended period, as the IMF must phase market sales of gold. Given the volatility of the gold price, it would be premature to speculate on whether the IMF will earn more than expected through the gold sales at this time.

- 2. Are any more sales of IMF gold authorized to occur?**

Besides the on-going sale of the 12.97 million ounces, no further gold sales are authorized. Moreover, the decision to authorize the current gold sale was premised on this being a strictly limited sale. Congressional approval would be required for any additional sales beyond the agreed upon amount of 12.97 million ounces.

- 3. Has an endowment been set up by the sale and are proceeds paying for operating expenses? Please answer in detail.**

For now, proceeds from the gold sales are being held in the IMF's General Resources Account. These proceeds increase the IMF's holdings of members' currencies, effectively increasing the loanable resources on which the IMF does not have to pay remuneration. Thus, they have a marginal impact on the IMF's income position.

The endowment to be funded with IMF gold sales' proceeds has yet to be set up, as the amendment to the IMF's Articles of Agreement to make the endowment fully operational has not yet entered into force and gold sales are still on-going.

Making the endowment fully operational also requires entry into force of the amendments to the IMF's Articles of Agreement expanding the IMF's investment authority. To enter into force, three-fifths of the membership (112 countries) having 85 percent of the total voting power must consent to the amendment. As of the end of March 2010, 66 members (including the U.S.) representing 72.9 percent of the voting power had consented to the amendment.

4. Is the IMF continuing to streamline its operations and expenses as was promised in exchange for the authorized gold sales? Please answer in detail.

In 2008, IMF management responded to calls for budget discipline from the United States and other shareholders by cutting staff (over 380 positions, out of 3000 total) and reducing expenditures by \$100 million in real terms over a restructuring period of three years.

The IMF's proposed FY 2011 budget is projected to meet these savings and staff targets. Looking forward, the Fund has reiterated its commitment to maintain the number of full-time regular staff at this reduced level.

International Monetary Fund New Arrangements to Borrow (NAB)

1. Please give the Committee a detailed update of the NAB's operations. Is it functional; has it made loans? Is it serving its purpose?

The decision last year by G-20 leaders in London to expand and increase the NAB helped to stem contagion risk, reduce global capital flight (particularly from emerging markets), and restore confidence to the global financial system. The enlarged NAB will provide the Fund with a credible backstop to address future threats to the international monetary system.

No loans have been made from NAB resources. The IMF Executive Board approved the decision to increase and modify the NAB on April 12, 2010. However, the NAB will only become effective (operational) once NAB participants take certain steps to finalize their participation.

2. Do the so-called BRIC countries – Brazil, Russia, India and China – have an effective veto authority over the NAB's operations?

Individually, none of the BRIC countries have veto power over NAB decisions. Collectively, however, the BRIC's combined share of total NAB credit arrangements equals 16 percent, which is sufficient to block certain NAB decisions with required majorities of 85 percent, such as activation of the NAB for loans to the Fund.

3. How has the Department of Treasury ensured accountability of U.S. resources at the NAB?

The United States' share of the NAB is 19 percent, giving the United States the ability to veto key NAB decisions when the expanded NAB becomes operational. In negotiations on technical modifications to the NAB, the United States worked to ensure that the conditions and criteria for activation and use of the NAB remained rigorous. In particular, the required majority for NAB activation has been increased from 80 percent to 85 percent of total credit arrangements. The NAB remains a backstop for the Fund's loanable quota resources, and can be activated only if

quota resources need to be supplemented to forestall or cope with an impairment of the international monetary system. All individual IMF lending programs financed from NAB resources, as with all other lending programs, must be approved by the Executive Board.

FY2011 Budget Request for Multilateral Development Banks (MDBs)

1. How does a Member of Congress explain to their constituents that doubling resources to the World Bank is an appropriate use of taxpayers' dollars during times of record fiscal deficits?

U.S. support of multilateral institutions and financing mechanisms, such as debt relief, help further the prosperity, stability, and national security of developing and developed countries alike. During a time of constrained resources at home, these investments in global prosperity remain vitally important. They not only lift people out of poverty, but also generate new economic opportunity for Americans and markets for American products globally. In addition, U.S. support of these institutions increases the effectiveness of our assistance dollars, both bilateral and multilateral. In fact, for every dollar the United States contributes to paid-in capital for the World Bank, we estimate that \$26 worth of assistance is delivered.

U.S. contributions provide a bigger bang for the taxpayer buck, allowing the United States to leverage significant resources from other donors for support in frontline states (Afghanistan, Pakistan, and Iraq) and other important development priorities, including food security, climate financing, global health, education, and private sector development.

Furthermore, in 2008-2009, the MDBs served a critical role in helping developing countries withstand the financial crisis and thereby reduce the impact of the global downturn. Collectively they implemented more than \$222 billion in programs, providing vital assistance to blunt the impact of the financial crisis on the poorest.

In its FY2011 Budget request, the Administration requests \$1.285 billion for the U.S. annual contribution to the International Development Association (IDA), the World Bank's facility for the poorest countries, and \$50 million in unmet U.S. commitments to IDA to help the U.S. meet its pre-existing pledge to the Multilateral Debt Relief Initiative (MDRI). This request is less than 2 percent over last year's enacted figure.

The increases in Treasury's international budget request are largely due to increased support in the areas of food security and climate financing, both priorities of the Administration. Treasury is requesting \$408.4 million for a new Food Security Trust Fund and \$635 million for the Climate Investment Funds (\$260 million over FY 2010 enacted levels).

2. Will general capital increases (GCIs) to the Multilateral Development Banks be contingent on governance and anti-corruption reforms occurring first?

In GCI discussions, Treasury has pushed the MDBs to adopt and implement concrete commitments on governance and anti-corruption. Treasury has also urged swift execution of those reforms that can be put in place before the GCI, coupled with accountable implementation plans for those reforms that may take longer to implement. For example, at the Inter-American Development Bank, the institution's shareholders concluded an annex laying out the reform agenda agreed in the context of the upcoming GCI. This annex incorporates a timeline for adoption of these reforms that includes a best practice disclosure policy for both the Bank's policies and its project-level expectations and results. Treasury will closely monitor implementation of these reforms.

3. Please specifically detail any U.S. commitments made for GCIs and the reforms that must occur prior to the institution receiving any increased funds.

The Asian Development Bank (ADB) is the only GCI commitment for which we are requesting funding in the FY 2011 Budget. At the ADB, we negotiated reform commitments in the areas of improving environmental safeguards, strengthening anti-corruption, increasing assistance to the poorest in the region, upgrading risk management, professionalizing human resources, and refocusing support to the poorest within the region's most credit-worthy countries. To date, the ADB has already implemented the majority of these reforms, specifically it: 1) completed the revisions to its environmental and social safeguards; 2) split the offices of Internal Audit and Integrity; 3) increased assistance to the poorest in the region by tripling its net income allocation to the Asian Development Fund; and 4) upgraded the institutional role and capacity of its risk management office. We will continue to closely monitor the ADB's ongoing implementation of these reforms.

Treasury is currently negotiating the terms of GCIs for some of the other MDBs, although at the time of this writing there have been no formal commitments to seek funds from Congress. Secretary Geithner has made it clear to international partners and the MDBs themselves that any U.S. commitment to seek funds will only be made in the context of reform commitments. Where reforms cannot be implemented ahead of funding commitments, we will expect their time-bound implementation.

4. How must MDBs change their current way of doing business to act as more of a catalyst for economic growth and political change in the poorest countries?

Policies needed to foster economic growth and political change in the poorest countries differ in many ways from those that succeed in promoting growth in more advanced developing economies. Fragile states in particular require the MDBs to focus more on developing institutional capacity in the recipient country. MDBs must also avoid overtaxing limited government resources in the recipient country by better coordinating aid delivery among the MDBs as well as bilateral donors. Recent efforts by the IDB and the World Bank, among others, to address Haiti's reconstruction have acknowledged the importance of capacity building and

consolidation of donor efforts. At the same time, it is important to ensure that the recipient government takes the lead in establishing priorities and setting goals. Allowing for effective country ownership, coupled with improvements in transparency and accountability on the part of the MDBs, is a deeply integrated part of our reform agenda.

5. What efforts do you think are still needed in reforming or altering the international financial system, specifically with respect to the MDBs, that would allow stronger, more stable capital flows to emerging markets and the poorest countries?

Rapid, sustained growth of private sector finance will be the chief contributor to stronger, more stable flows to emerging markets and the poorest countries. The MDBs can support national-level changes that make countries more attractive to private finance, including improved fiscal management, financing for infrastructure, and support for improved business environments. The MDBs also engage directly on reform of financial systems to promote the integrity and soundness of banking systems and deeper, broader capital markets.

Mexico

1. Please provide specific information about how Treasury's designation of 54 members of the Gulf Cartel and Los Zetas as "Specifically Designated Narcotics Traffickers" under the Kingpin Act attacks the cartels' respective business network?

On March 24, 2010, in consultation with USG interagency partners, OFAC designated 54 Mexican drug traffickers involved in the Gulf Cartel and Los Zetas as specially designated narcotics traffickers subject to sanctions under the Foreign Narcotics Kingpin Designation Act. The March 24, 2010, designation expands upon a ten-year program that targets narcotics traffickers and major drug cartels. It allows OFAC to deny Gulf Cartel and Los Zetas members, and those who work on their behalf, access to the U.S. financial system, barring them from all trade and transactions with U.S. companies and individuals, and immobilizing any assets they may have under U.S. jurisdiction. These actions can lead to asset blockings and forfeitures that hit the financial and commercial structure of the cartels and weaken their leadership and organizational structure. As we have seen with other OFAC designations, including those in Mexico, economic sanctions can disrupt and disable drug cartels. OFAC's designation isolates the Gulf Cartel and Los Zetas drug lords from the U.S. financial system.

Further pursuant to Mexican law, Mexican financial institutions must crosscheck their client database with the OFAC's List of Specially Designated Nationals and Blocked Persons and report it to the Mexican Financial Intelligence Unit (FIU). To avoid institutional risk, most Mexican financial institutions take a further step by voluntarily closing the accounts of OFAC designees, as well as the designees of other international watch lists. Depending on available information, OFAC also may continue targeting in a follow-up investigation any companies these designated individuals may operate in Mexico. This undermines the ability of designated individuals to operate such companies, which often have an unfair advantage over legitimately

formed companies operating in Mexico or possibly even in the United States.

2. How soon can we expect to see results?

OFAC designations often result in the identification of new assets in Mexico, the United States, or elsewhere. The banking sector has a unique opportunity to track the financial activity of designated individuals and entities and detect evasion of sanctions – in essence, to determine whether individuals are closing accounts and simply reopening them under different names or transferring illicit monies to non-designated associates or family members. OFAC will track these leads and continue to “follow the money.”

OFAC continues to target the Gulf Cartel and Los Zetas and other drug trafficking organizations aggressively to incapacitate their networks. OFAC works closely with law enforcement partners in the U.S. and abroad, as well as the U.S. Department of State to identify the individuals and businesses working on behalf of and materially assisting the drug trafficking organizations. OFAC continues to target organizations even as they take measures to evade OFAC sanctions and does not relax its attention on an organization after one round of designations.

3. What else can your agency do to help dismantle the drug cartels and fight the systemic corruption found in many Mexican institutions which prohibits effective enforcement by the Mexican government?

OFAC sanctions act as a tool to expose and delegitimize businesses owned or controlled by drug traffickers, identifying them as money laundering fronts used to penetrate the legitimate economy with the proceeds of illicit action. In addition, by exposing traffickers publicly, OFAC sanctions can remove barriers to action by foreign authorities and institutions, which might otherwise have hesitated to act against these powerful and violent organizations when the identities of key operatives and front companies were not publicly known. OFAC sanctions enable us not only to protect the integrity of the financial system, but to also strike hard at illicit actors.

Pursued in coordination with Mexican and U.S. law enforcement and regulatory actions, OFAC sanctions have the potential to severely impact the criminal and financial networks of key drug players worldwide. This multi-pronged attack can disrupt and even incapacitate drug cartels as they lose access to their bank accounts, corporate holdings, and other property.

Anti-Corruption Efforts at the Multilateral Development Banks

1. Can you assure the Committee that each Bank has put in place the appropriate safeguards to prevent fraud and corruption at all levels of Bank projects? Please answer in detail and give specific examples?

We continue to work with other shareholders and stakeholders to strengthen the anti-corruption work at each MDB. Each MDB has an office that investigates allegations and

complaints of fraud and corruption, both within the institution and on Bank projects. We have worked to ensure that the investigative offices at the MDBs are functionally independent, and have adequate budget and staff. For example, the Asian Development Bank recently raised the visibility and independence of the investigative unit in the organization, establishing a separate office with a direct reporting line to the President. The Inter-American Development Bank, as recommended by the Thornburgh Report, has moved its investigative function out of the office of the President and created a separate independent office. In addition, each MDB has a process for sanctioning firms and individuals determined to have participated in fraud, corruption, bribery, or collusion with respect to the operations it finances. All MDBs apply harmonized definitions of fraud and corruption, which were agreed to by the Heads of the IFIs in Singapore in 2006.

In a major step forward, on April 9, 2010, the World Bank, Asian Development Bank, Inter-American Development Bank, African Development Bank, European Bank for Reconstruction and Development, and the IMF signed a Cross-Debarment Agreement. The institutions agreed that they will enforce one another's debarment of firms and individuals. Mutual cross-debarment decisions are subject to certain criteria, e.g., the initial period of debarment exceeds one year, the decision was made after the agreement has entered into force, and the decision was made within ten years of the date of commission of the sanctionable practice. Debarment, and particularly cross-debarment, should serve as a powerful deterrent to bribery and other corrupt practices in projects financed by any of the MDBs.

In parallel, the MDBs have in place preventive programs, such as conducting ex-ante due diligence of potential private sector clients; using risk flags; strengthening the capacity of borrower country procurement, financial management, and audit staff; and including project-specific mitigation measures to minimize the opportunity for fraud and corruption. The MDBs' procurement and consultant guidelines/rules for investment lending and standard bidding documents for international competitive bidding increase transparency and accountability, and help reduce opportunities for fraud and corruption.

2. In countries with a history of corruption, what safeguards are in place to prevent government officials or their friends from personally benefiting from MDB financing?

In circumstances of systemic corruption or where the MDB believes that a borrowing country lacks the necessary organization, resources, and experience to manage procurement, the MDBs may require special safeguard arrangements. For example, as a condition of a project loan, a borrower may be required to employ an independent procurement agent. The independent procurement agent, not the government ministries or executing agency, handles all of the procurement on behalf of the Borrower. This arrangement is currently required by the World Bank for its projects in Cambodia. Another safeguard arrangement is the use of concurrent reporting of bid evaluations by an independent procurement monitor. This process is in place in the Philippines for a World Bank road project that had a history of corruption.

3. How does the provision of Bank assistance as budget support make anti-corruption efforts more difficult?

Because budget support efforts seek to accomplish broad goals, rather than specific project related procurement, it is more difficult to ensure that the money is used for its intended purpose. That said, budget support can enhance anticorruption efforts, as these operations often focus on encouraging developing country efforts to strengthen fiscal management through improved transparency and accountability. MDB staff, when they are particularly concerned about corruption, can opt to restrict disbursement of MDB budget support funds to specific activities or accounts.

4. What is the current level of budget support at each Bank and what is the U.S. Treasury's position on this subject?

Treasury calculates the three-year average share of commitments in the form of budget support to be 6 percent at the AfDB, 12 percent at the ADB, 18 percent at the IBRD and 24 percent at the IDB. The three-year average is a useful metric because it reduces year-to-year fluctuations. Treasury analyzes budget support projects on a case by case basis, without respect to the institutional level of budget support.

Climate change

1. Please explain what role the U.S. will play in lining up \$100 billion a year for adaptation programs as pledged by the Secretary of State by 2020 specifically; who is charged with keeping track of what funds have been raised; and to what fund or mechanism do you expect these funds to be deposited?

The \$100 billion commitment is referenced in the Copenhagen Accord, with which 133 countries have now associated themselves. In the Accord, in the context of meaningful mitigation actions and transparency on implementation, the United States and other developed countries have committed to a goal of jointly mobilizing \$100 billion a year by 2020 to address both the adaptation and mitigation needs of developing countries. This funding will come from a wide variety of sources, public and private, bilateral and multilateral, possibly including alternative sources of finance. Private sector flows are expected to account for the majority of mitigation finance, and the carbon market will be a key instrument to catalyze these flows. Accordingly, we expect that the funds to be mobilized will flow through different channels rather than being deposited into a single one.

Because of the diversity of potential funding sources within and among countries, it will be necessary to develop an international system for tracking the flow of funds by 2020 that is accurate, timely, and transparent. The United States will fully participate in deliberations regarding how to track what funds have been raised and which institution or institutions will perform this function. Importantly, development of mechanisms to track finance should

proceed in parallel with mechanisms to track mitigation actions.

Multi-year global commitments

1. **Given the number of multi-year global commitments the Administration has made to date and the expectations for funding to the Treasury Department by Congress, please explain your consultation process with the Committee and what assurances you received that these pledges would receive funding? Please include climate change, food security, multilateral development banks, and debt relief commitments in your answer.**

Treasury staff meets regularly with both House and Senate Appropriations staff to discuss multi-year commitments including those associated with the climate investment funds, the food security trust fund, MDB general capital increases, and debt relief. Treasury's requests in the FY 2011 Budget reflect those discussions. We look forward to continuing consultations with Congress on both funding levels and our reform agenda at the MDBs. We have sought to be particularly mindful of the extensive engagement needed on new initiatives such as food security, as well as the importance of demonstrating results before proceeding with concrete multi-year funding requests.

As the Administration's international commitments are contingent on appropriations, the commitments are made with the appropriate caveats. We do work together with the Congress, however, to meet shared goals.

North American Development Bank

1. **Could you expand on the problems facing the NADBank at this point -- 15 years after its creation?**

NADB is now fully capitalized and has made significant improvements in the last few years to increase overall effectiveness through:

- The completion of the Business Process Review in 2006, which put in place new procedures on the project approval process.
- The approval of a set of financial management policies in 2009, such as the liquidity policy and an annual borrowing plan, which set the stage for the NADB to expand its financing through accessing capital markets for the first time.
- The launch of a due diligence review process in 2009 to provide guidance on the level of due diligence on the potential environmental and health benefits that are expected from air quality projects.
- The adoption of a new results framework that will include ex post evaluations, enabling the Board to determine whether a project met its originally stated goals.

As a result, this past year NADB's total lending portfolio surpassed \$1 billion. This lending supports the implementation of infrastructure projects aimed at providing a cleaner and healthier environment for residents of the U.S.-Mexico border region. Lending nearly doubled from \$245.3 million to \$456.0 million during the 12-month period ending in December 2009. Project implementation also is picking up - of the 14 projects financed in 2009, 11 were under construction during the year, and three of those projects were completed before year end.

Looking forward, there are key areas, however, where NADB and its sister institution – the Border Environmental Coordination Commission (BECC) – can improve.

First, NADB and BECC should strengthen the environmental justification for some of the newer projects that are brought to the Board for financing. In the interest of tapping newer sectors (such as air quality), NADB is eager to expand its lending activities to such sectors, but the environmental justification that accompanies the newer requests do not always provide sufficient or high quality data on the expected results from the projects. Treasury, the State Department, and EPA (and their Mexican counterparts) have begun working with NADB and BECC on strengthening their due diligence on such air quality projects and hope to see well designed air quality projects in the future.

Second, there is still strong demand for traditional water, wastewater, and sewage projects along the border, particularly in the rural areas that NADB and BECC should continue to service. While financing projects in urban areas is appealing, particularly where NADB has a track record, we want to see NADB go deeper into the rural areas to provide for the basic environmental infrastructure needs on both sides of the border.

Finally, NADB continues to struggle with the need to provide market-rate finance in water/wastewater sectors that are almost always subsidized. In the United States, potential borrowers have access to the municipal bond market and to other subsidized finance sources (such as EPA-funded state revolving funds for drinking water and waste water projects), so it does pose a challenge to find good bankable projects in some regions.

2. Of the \$2.5 billion available, how much has the NADBank actually lent?

NADB has \$450 million in paid-in capital and \$2.5 billion in callable capital. Note that the callable capital may not be used to make loans and constitutes, in effect, backing for the Bank's outstanding indebtedness and guaranties. Accordingly, NADB's actual lending stems from the paid-in capital and the additional capital that NADB has been able to raise on the markets. To expand its lending base, NADB issued its first bond in February 2010, raising \$250 million on the U.S. capital markets.

With its capital base, NADB's outstanding loan portfolio is \$456 million, which brings NADB's overall lending activities since inception to \$1.08 billion in total project financing for sustainable infrastructure projects. This level of financing has supported 132 projects with a total construction value of \$3 billion. The year 2009 was NADB's busiest year in

financing projects: approximately \$212 million in new loans and an additional \$6.4 million in grants were contracted during the course of the year to support 14 projects, including the Bank's two largest loans to date.

3. Has the Bank been fully capitalized, specifically were all appropriated funds contributed and obligated?

As of May 2009, both the United States and Mexico completed their subscription to the authorized capital stock of the Bank with a final capital contribution of \$13,998,393 each, bringing the NADB to full capitalization. Congress appropriated the full \$225 million in paid-in capital and authorized the full \$1.275 billion in callable capital.

4. What is the annual operating income earned by the Bank each year since 2005 and how have these funds been used by the Bank? What were their overhead costs for 2009 and how has this changed in the past 10 years?

Since 2005, NADB's financial position has been steadily improving. From a net income loss of around \$3.67 million in 2006, NADB's net income increased from \$4.5 million in 2007 to \$9.37 million in 2008 to \$10.1 million in 2009. Net income has been put toward the Special Reserve, a fund available to offset losses on any loan or guaranty and pay expenses relating to the enforcement of the Bank's rights under outstanding loans and guaranty agreements.

In 2009, NADB's overhead costs were approximately \$668,000, which reflects general and administrative expenses. Over the last ten years, the overhead costs have trended downwards from around \$1 million, or 13 percent of operating expenses, down to 8 percent of total operating expenses (as of 2009).

5. Has the NADBank ever been viewed as a tool to help stem recruitment into the drug cartels by providing jobs and increased economic activity into Mexican communities?

We are not aware of any correlation between NADBank's activities and drug cartel recruitment. In any event, NADBank's mandate is not to create jobs but to fund sustainable infrastructure in various sectors, including water, wastewater, solid waste management, air quality and renewable energy. Ideally the provision of these services would contribute to an improved environment for private sector development, but only as one of many relevant factors.

Treasury Technical Assistance

1. Could you detail the level of transfers to this account in FY09, estimated in FY10 and projected in FY11?

The following table summarizes transfer funding to OTA. FY2009 figures reflect transfers

received. FY 2010 and FY2 011 figures are estimates.

Transfer from	Actual FY2009	Projected FY2010	Projected FY2011
State-Europe, Eurasia & Central Asia	\$5,441,000	\$5,483,000	\$5,481,650
USAID	\$2,618,775	\$2,603,019	\$2,603,019
State-INL	\$820,283	\$3,354,956	\$300,000
DOD	\$534,121	\$0	\$0
Funded by Counterpart Country*	\$836,860	\$406,256	\$0
Funds for specific countries:			
Iraq (State/USAID)	\$7,750,000	\$7,300,000	\$5,200,000
Afghanistan (State/USAID)	\$4,500,000	\$6,285,000	\$8,000,000
Pakistan (USAID)	\$0	\$6,900,000	\$6,900,000
Financial Crisis (USAID)**	\$0	\$9,547,000	\$0
Total Transfers	\$22,501,039	\$41,879,231	\$28,484,669

*Typically co-funded by counterpart countries using donor funds.

** Financial Crisis funds were appropriated as a supplemental to the FY2009 budget, however funds were received by OTA in FY2010.

2. How many personal services contractors (PSCs) were employed by OTA in fiscal year 2009 and in which countries?

OTA employs approximately 190 personal services contractors as resident and intermittent advisors. Of the total PSCs, 40 are resident advisors assigned to live and work in countries generally for a period of two to three years. The remaining PSCs are intermittent advisors that work on a temporary duty (TDY) basis on projects in one or more countries. It should be noted that the number of PSCs fluctuates, particularly the intermittent advisors, depending on program requirements. Also, there may be multiple resident advisors or intermittent advisors in the same country providing technical assistance in various disciplines (budget, tax, debt, banking, and economic crimes).

Regarding the countries in which OTA advisors are deployed, OTA had projects in more than 40 countries as of September 30, 2009, as follows:

<u>Americas</u>	<u>Asia</u>	<u>Former Soviet Union</u>	<u>Middle East</u>	<u>Sub-Saharan Africa</u>
Colombia	Afghanistan	Armenia	Algeria	Burundi
Costa Rica	Cambodia	Azerbaijan	Egypt	Ghana
Dom. Republic	Indonesia	Georgia	Iraq	Kenya
Guatemala	Laos	Kazakhstan	Jordan	Lesotho
Haiti	Pakistan	Latvia		Mozambique
Honduras	Vietnam	Ukraine		Namibia
Mexico				Niger
Nicaragua	<u>Central and Eastern Europe</u>			Rwanda
Paraguay	Albania			Sao Tome & Principe
	Bosnia			Senegal
	Kosovo			Tanzania
				Uganda
				Zambia

3. What is the annual average cost per PSC? How does this compare to the costs of PSCs at USAID?

OTA's costs to deploy and support advisors, who in almost all cases are personal services contractors (direct hires), are very similar to the costs associated with State Department and USAID PSCs. For example, OTA coordinates with the State Department regarding authorized benefits and allowances, which may vary according to Post. Advisor support costs, such as housing and in-country logistics, are also in line with State Department and USAID PSC costs.

OTA's annual average cost to deploy and support a resident advisor PSC is approximately \$550,000. This includes compensation (including allowances and benefits), travel to/from Post, logistical support (housing, local transport, phone/internet, office supplies/support, translation services, etc.), and other related costs. This figure also includes an amount (15 percent of total) for program management.

Unlike many government agencies, OTA's annual budget does not have a separate account/line item for salaries and expenses (S&E), so all OTA management and support expenses (including salaries for OTA headquarters staff, office space, and other administrative support functions) are covered by a 15 percent program management charge. It is our understanding that USAID has a separate S&E line item in its annual budget that covers program management expenses, including headquarters staff salaries and other administrative expenses, and that these costs are not reflected in individual USAID project budgets.

In addition to PSC deployment and support costs, OTA also typically budgets for specialist advisors who may be required to assist with technical aspects of certain projects. Including

these short-term advisor expenses provides a total project cost that best reflects the cost of delivering technical assistance. The average annual cost per project on this basis is \$600,000.

The above information describes costs related to personal services contractors, who are direct hires of the Treasury Department. We do not have comparative information regarding costs for third-party contractors working for firms under contract for USAID or other agencies.

4. Why do we need to fund the technical assistance programs directly when we are funding MCC and USAID assistance to many of these same countries?

Treasury's assistance program brings a comparative advantage relative to MCC and USAID in the specific disciplines involved in strengthening counterpart countries' financial institutions and systems. Treasury focuses on central government Finance Ministries and Central Banks and our counterparts value the unique peer-to-peer, Ministry-to-Ministry aspect of our program. Our program focuses on five core public finance disciplines: budget and financial accountability, revenue administration and policy, government debt issuance and management, banking and financial services, and combating economic crimes.

OTA's work to strengthen financial management capacity is a vital complement to other forms of aid, including those provided by USAID and MCC, and is a necessary and sometimes neglected element in overall aid effectiveness. Effective and efficient public financial management is a pre-condition for achieving a range of development and governance goals.

OTA is a demand driven, flexible program and the way we operate makes us particularly effective. Our projects are governed by a mutually agreed upon work plan, allowing us to make adjustments to the project to meet evolving needs and opportunities. Our advisors are co-located and work side-by-side with their counterparts allowing them to develop critical working relationships based on trust and credibility. OTA senior managers, who oversee the advisors and their projects, are themselves technical experts in their respective disciplines (budget, tax, banking, government debt, economic crimes).

Regarding coordination with other USG agencies and international partners, Treasury engages with partner countries only where there is a good fit and then only in coordination with the Embassy and other donors to ensure that the assistance is congruent with the mission strategic plan and with other U.S. Government efforts.

Questions from Rep. Barbara Lee (D-CA)***Haiti/Debt Relief***

1. **Mr. Secretary, recently we passed H.R. 4573, the Haiti Debt Relief and Earthquake Recovery Act, sponsored by Congresswoman Maxine Waters. The bill calls for you to instruct the U.S. executive directors at the IMF, the Inter-American Development Bank (IDB), and other international financial institutions (IFIs) to use the voice, vote, and influence of the United States to achieve complete cancellation of all debts owed by Haiti to these institutions. As I am sure you would agree, forgiving Haiti's debts is a no-brainer (even if we all acknowledge that it is not a panacea). I know the leaders of the IFIs feel the same way.**

I was happy to see that just this past Tuesday, the IDB's Board of Governors (which includes you) agreed to forgive Haiti's \$479 million debt to the bank, and that funds in the President's Haiti supplemental request are designated specifically for the purpose of cancelling Haiti's debts to the IFIs.

Can you please elaborate on U.S. efforts to work with the international financial institutions to cancel Haiti's debts?

Treasury has been actively consulting with shareholders and management of the multilateral development institutions, the U.S. Congress, and NGOs on a framework for debt relief for Haiti. There is now broad agreement that Haiti's recovery should not be burdened by debt to the multilateral institutions.

Last month, Treasury rolled out a proposed framework for Haiti debt relief to the international community. The framework envisions a comprehensive arrangement that not only provides debt relief but attempts to ensure that direct grant assistance is provided by the multilateral development institutions on an immediate and sustained basis to support Haiti's reconstruction and development priorities. Treasury is now working closely with shareholders of these institutions to advance this framework.

What is the mechanism that the IDB is considering for forgiving the \$479 million owed by Haiti?

Haiti's debt to the IDB is actually to the IDB's separate fund reserved for low income countries, the Fund for Special Operations (FSO). On March 21, 2010, Governors of the IDB, at their annual meeting in Cancun, Mexico, endorsed the U.S. framework for comprehensive debt relief for Haiti. Although details of the Cancun agreement still need to be finalized, the approach entails a \$479 million special replenishment of the FSO that would deliver the following outcomes:

- Haiti's debts to the Fund for Special Operations are to be cancelled;

- Haiti's remaining local currency conversion obligations to the Fund for Special Operations are to be cancelled;
- Undisbursed balances of existing loans of the Fund for Special Operations to Haiti are to be converted to grants; and,
- The Fund for Special Operations is to make available significant and immediate grant financing to Haiti as well as appropriate resources to other countries remaining as borrowers within the Fund for Special Operations.

Are the funds in the Haiti supplemental request, plus commitments made by other countries, sufficient to completely cancel Haiti's debts?

The debt relief framework proposed by Treasury, if fully enacted and supported by the membership of the multilateral development institutions, is designed to fully extinguish Haiti's debt to three of its largest multilateral creditors (the IDB, the International Fund for Agricultural Development (IFAD), and the International Development Association (IDA)). IMF management has announced its intention to seek full relief for Haiti's outstanding IMF obligations. We welcome that announcement and will look for the IMF to leverage internal resources to finance Haiti's IMF debt relief.

Treasury believes that the funds requested for debt relief in the Haiti supplemental request puts the U.S. government in the best position to secure an agreement with shareholders at the IDB, the IFAD, and the IDA to cancel Haiti's debts at those institutions. Our goal is that the funding requested in the Haiti supplemental request, combined with \$40 million in reprogrammed base budget funds, combined with funding commitments from other countries as well as the use of internal institutional resources, will be sufficient to fully fund the debt relief framework.

Haiti Technical Assistance

2. Can you describe in more detail the ongoing activities of the Office of Technical Assistance in Haiti?

Are these efforts supporting the urgent restoration of the Haitian Government's capacity to allow for shared partnership and responsibility with international donors in implementing international relief, recovery, and long-term development efforts?

In the immediate aftermath of the earthquake, Treasury's Office of Technical Assistance (OTA) deployed two expert technical advisers to Port-au-Prince to assist the Government of Haiti with efforts to restart and strengthen the tax, budget, and banking systems. Since then, experts in tax and anti-corruption/money laundering have been deployed to assist their Haitian counterparts. Treasury is planning for more experts to head to Haiti soon to work on a broad range of public financial management, banking system, and money laundering issues.

In recent weeks, OTA has turned its attention to strengthening the financial system in the medium term. It has provided guidance to the Central Bank on its financial strategy, which has included the strengthening of bank supervision and regulation of microfinance activity.

Going forward, OTA anticipates helping the Budget Director with budget programming and performance budgeting; advising the Treasurer on the drafting of a new framework for government debt, cash management, debt management, and related debt issues; helping the government estimate its future tax revenues and reestablish its taxation structure; and providing guidance on insurance regulation issues. Given the devastation at the Tax Department (Direction Generale des Impots), OTA anticipates a substantial and long term cooperation effort.

Department of the Treasury, the Office of Foreign Asset Control

3. **According to the 2008 Government Accountability Office (GAO) report, GAO-08-80, the Office of Foreign Asset Control's (OFAC) mission is misdirected in enforcing the travel ban on Cuba and that an inordinate amount of OFAC's resources are tasked with enforcing a policy that does not reduce any significant risk to national security.**

Mr. Secretary, has the Office of Foreign Asset Control completed the risk based assessment as recommended by the GAO, and if not, when will the assessment be completed and when will the Treasury Department be able to share those findings with the Committee?

4. **Has OFAC reallocated their limited resources during this time of tight budgets to the areas that best address the risks to our national security? How much time will OFAC need to reallocate their resources based on the findings of the risk based assessment?**

Responds to questions 3 & 4:

OFAC priorities are based on the President's national security and foreign policy objectives and resources are allocated to further those objectives. OFAC focuses its enforcement resources on significant threats to the integrity of our sanctions program. In 2009, OFAC assessed one penalty related to Cuba travel. OFAC's Cuba related resources focus on allowing for timely and thorough responses to requests from the public for interpretive guidance and/or licenses.

Importance of Technical Assistance Programs and PEPFAR

5. Secretary Geithner, thank you for your testimony on the importance of technical assistance programs and the need to help countries effectively manage their public finances.

I believe these technical assistance programs serve as a critical complement to our foreign assistance programs.

In the 110th Congress, we enacted bipartisan legislation to re-authorize and expand our global AIDS programs, commonly known as PEPFAR.

I was pleased that in this legislation which I co-authored, we included specific authority for Treasury to assist countries with their public finance systems. The goal is that one day perhaps we can begin to fully transition PEPFAR programs to host countries so that they can finance and manage them in an accountable and transparent manner on their own.

Can you tell me what the Office of Technical Assistance has done so far to fulfill this mandate? Does the office have a separate budget to help them provide technical assistance in PEPFAR countries, or have they been solely reliant on USAID and the State Department to provide transfer funds for them to carry out this mission?

Within days of the re-authorization bill's passage, OTA met with the Office of the U.S. Global Aids Coordinator (OGAC) in Washington to explore how we could become part of the program.

OTA initiated a cable, coordinated with OGAC, to inform PEPFAR country teams that Treasury had been included in the re-authorization bill and to explain the rationale for that. OTA followed up with a letter to 19 PEPFAR country teams requesting the opportunity to visit them and discuss how we might be included in the country program. OTA visited the three countries to which we were invited.

During the course of official visits to PEPFAR countries on other Treasury technical assistance matters, OTA management has sought and held meetings with country teams and in some cases with host-country counterparts. In total, over the past two years, OTA has contacted 27 PEPFAR country teams to explain our program and how we might contribute to PEPFAR's goals.

Consultations are ongoing with the PEPFAR program to fulfill the mandate we were given in the PEPFAR re-authorization bill.

6. **In regards to the Administration's new global health initiative, have you had any discussions with Ambassador Goosby, or Secretary Clinton about the importance of effective public finance systems in developing countries to ensure that they can adequately respond to their public health needs?**

On August 10, 2009, Deputy Assistant Secretary for Technical Assistance Policy, Larry McDonald, wrote to Ambassador Goosby to congratulate him on his recent appointment as Ambassador at Large and Global Aids Coordinator, and to explain how Treasury's technical assistance program might play a helpful role in support of PEPFAR's objectives. Treasury's technical assistance program has worked with Ambassador Goosby's office to identify countries in which Treasury's program might play a helpful role in support of PEPFAR's objectives. PEPFAR has set up discussions between Treasury and PEPFAR country teams, and we are continuing to work to identify opportunities where our capabilities can have an impact.

IMF Exemptions for Investments in Health

7. **As part of last year's FY10 report, this committee included language directing that the U.S. representative to the International Monetary Fund shall oppose IMF funding for any loan, project, agreement, memorandum, instrument, plan, or other program of the Fund to a Heavily Indebted Poor Country that impose budget caps or restraints on the health or education spending of national governments.**

Can you provide this committee with an update on any such votes that may have occurred or are pending within the IMF on any such loan/project/agreement?

What is the United States doing to modify the content of these proposals to ensure that we are not preventing countries for making the necessary social investments to educate their people and provide them with quality affordable health care?

Treasury has invested substantial staff time assessing all requests for IMF resources from relevant HIPC countries to determine whether the proposed programs will meet the standards contained in this mandate found in Division F of the Consolidated Appropriations Act, 2010 (P.L. 111-117). In the limited number of HIPC country programs that have come to the Board, Treasury has found in each case that the IMF program has allowed for an increase in the country's health and education expenditures.

For example, in December 2009, the IMF Board considered the third review of Liberia's Poverty Reduction and Growth Facility (PRGF). Treasury requested that IMF staff provide projections of health and education expenditure under the 2010 PRGF-supported economic program in order to assess whether the Liberian program allowed for maintenance of or increase in social expenditures. IMF staff's projections indicated that education expenditures would increase from \$32.5 million (3.8 percent of GDP) in the 2008/2009 budget year to \$43.3 million (4.8 percent of GDP) in the 2009/2010 approved budget. Health expenditures

were projected to increase from \$19.0 million (2.2 percent of GDP) in 2008/2009 to \$24.4 billion (3.1 percent of GDP) in 2009/2010. Treasury staff therefore concluded that Liberia's PRGF allowed for an increase in health and education expenditures.

The U.S. Executive Director's board statement in discussions of relevant HIPC country programs routinely stresses the importance of protecting health and education expenditures.

MDGs/Development in Africa

8. **The UN Secretary General suggests progress in meeting the Millennium Development Goals (MDGs) of reducing hunger, alleviating poverty, and improving health for the world's poor has slowed or even reversed. In fact, the United Nations Department of Economic and Social Affairs indicates that as of June 2009, progress was either insufficient, absent, or deteriorating for 100 percent of key targets related to compliance with the Millennium Development Goals (MDG's) in Sub-Saharan Africa.**

You mention in your testimony that the United States is working with International Finance Corporation to increase focus on the world's poorest countries.

What specific mechanisms have been put in place, or are being contemplated, to ensure every U.S. development dollar directed through international financial institutions is delivered with an eye toward and emphasis on those countries that need it most, particularly in Sub-Saharan Africa?

Treasury engages actively with the IFIs to support durable African growth and development. This engagement was particularly important during the financial crisis when African governments needed countercyclical financing to maintain their budgets and mitigate the impact on the poorest and most vulnerable.

- IFC. Over the past several years, the IFC has substantially increased its commitment to Africa. In 2009, IFC committed \$1.82 billion in sub-Saharan Africa (SSA), which was thirteen times the volume of investments in 2003. The IFC also expanded its country reach, from 17 countries in 2006 to 30 in 2009. Even as IFC investments outside of the region contracted in the midst of the financial crisis, IFC investments in SSA increased by 32 percent in 2009 compared to 2008 investments in the region. Going forward, the IFC will give further emphasis to support for priority sectors, including agribusiness, health and education, and infrastructure projects.
- AfDB and World Bank. The African Development Bank (AfDB) and the World Bank also rapidly increased financing to all African countries. This included new AfDB programs for trade finance and an emergency liquidity facility, as well as front-loading funds for low income countries. Compared to 2008 levels, AfDB lending tripled in 2009 to nearly \$9 billion, and concessional loans and grants from the African Development

Fund – which focuses on the poorest countries in Africa – increased by about 50 percent to nearly \$3 billion. For the World Bank Group, total commitments in SSA for the fiscal year that ended June 2009 were \$8.2 billion, a substantial increase over the previous twelve-month period. The World Bank also has frontloaded concessional resources. IDA, the World Bank’s facility for the poorest countries, spends 50 percent of its resources in Africa.

- IMF. Last July, the IMF approved a plan to sharply increase the resources available to low-income countries in response to the global crisis. These resources – including from the sale of IMF gold – will boost the Fund’s concessional lending by up to \$17 billion through 2014. By September, the IMF had extended close to \$3 billion in new concessional commitments to SSA, more than triple its 2008 commitments to the region. SSA countries have also received over \$12 billion from the IMF’s recent SDR allocations.

Food Security

9. **The first of the MDG’s aims to reduce by half the proportion of the world’s hungry by 2015.**

Do you believe recent international commitments including the Global Partnership for Agriculture and Food Security are realistic for achieving this goal?

A renewed focus on agricultural development provides one of the best mechanisms for halving the proportion of the world’s hungry and poor. In this context, the pledges made at the G-8 Summit in L’Aquila last year were an important step towards achieving MDG-1. It is important that donors now honor those pledges either through bilateral programs or through the new Global Agriculture and Food Security Program, a World Bank-administered trust fund designed to make medium- to long-term investments in the agricultural sectors of poor, food insecure countries. The United States intends to contribute \$475 million to the trust fund, \$67 million from FY 2010 funds and \$408 million requested in the Administration’s FY 2011 budget. In addition, beyond the funding for GAFSP, several IFIs have significantly more than the amount of funding that they provide for agriculture and food security as a result of the 2008 global food crisis.

International Financial Regulation

10. Mr. Secretary, when you appeared before the Financial Services subcommittee you spoke about the increased effort at the IRS regarding international efforts to enforce our tax laws and promoting international cooperation and information sharing.

Are other financial regulatory standards an integral part of this cooperative effort?

The best strategy for stability is to structure the financial system in such a way that it operates with clear rules that set unambiguous limits on leverage and risk. We have been working with our Group of Twenty (G-20) counterparts to strengthen the global financial system and its regulation. We have committed to take action at the national and international level to raise standards together so that our national authorities implement global standards consistently in a way that ensures a level playing field and avoids fragmentation of markets, protectionism, and regulatory arbitrage. U.S. leadership and our domestic reform agenda continue to inform deliberations at the international level.

The G-20 has become the preeminent forum for international coordination of financial regulatory reform. In the wake of the financial crisis, the G-20, with leadership by the United States, acted quickly to develop an ambitious framework for an international regulatory system. As part of this effort, the G-20 reconstituted the Financial Stability Board (FSB), expanding its membership to include the rest of the G-20 countries, and strengthened its institutional mandate. The FSB has been at the center of this tremendous reform effort, coordinating the activities of standard setting bodies while respecting their independence, and putting forward recommendations for consideration by the G-20.

11. If the United States is successful in passing a safe and effective regulatory framework to greatly reduce the risks surrounding derivatives and increasing their transparency, would this just create financial securities havens just as there are tax havens today?

The U.S. and our international counterparts, as part of the G-20, have set forth an ambitious agenda to bring much needed oversight to the OTC derivatives markets, in order to increase transparency and reduce the potential for systemic risk. As the U.S. works on implementing critical regulatory reforms to strengthen our financial system, we continue to work with our international counterparts in the G-20 and the Financial Stability Board to build a strong global framework, based on common rules and coordinated implementation, to oversee the OTC derivatives markets. Such a framework will ensure that major financial centers adhere to international regulatory standards for OTC derivatives, which will mitigate the risk of regulatory arbitrage and provide for a level playing field.

Climate Change

- 12. Mr. Secretary, I feel strongly that United States support for climate change adaptation, mitigation, and clean technology transfer assistance to developing nations is not only critical to meeting our “common but differentiated responsibility” in addressing global climate change, but that it is also essential to our long-term development goals.**

You mention in your testimony that the President’s Treasury Budget request includes \$635 million to the Climate Investment Funds at the World Bank and \$175 million to the Global Environment Facility (GEF) under the authority of the United Nations Framework Convention on Climate Change (UNFCC).

Mr. Secretary, can you outline the Administration’s request related to Treasury climate investments in the context of short and long-term financial commitments made by the United States and our international partners at the COP15 Conference in Copenhagen in December of last year?

The FY 2011 budget request for Treasury contains requests for contributions to multilateral climate funds that, if appropriated, would be part of fast start funding commitments under the Copenhagen Accord. Treasury’s multilateral programs that comprise part of the Fast Start commitment include the Climate Investment Funds, the Tropical Forest Conservation Act (TFCA) and the Global Environment Facility. Our funding request for the Climate Investment Funds has increased from zero in FY 2009, to \$375 million in FY 2010, to \$635 million requested in FY 2011, while funding for the Global Environment Facility has increased from \$80 million in FY 2009, to \$86.5 million in FY 2010, to \$175 million requested in FY 2011. We continue to seek \$20 million a year for TFCA.

- 13. How are we ensuring that in the U.S. lives up to its pledge in support of the international commitment of \$30 billion in financing for mitigation and adaptation activities over the next three years (2010-2012) through new and additional climate investments rather than a broader accounting of existing environmental protection efforts around the globe?**

The Administration takes very seriously the collective commitment made by developed countries to provide new and additional resources approaching \$30 billion for the period 2010-2012. As detailed in the FY 2011 Budget Request for International Climate Change Financing, the Administration has significantly increased adaptation, clean energy, and sustainable landscape activities in developing countries. Core international climate efforts at the Department of State, Treasury, and the U.S. Agency for International Development have increased from \$300 million in FY 2009, to \$1.0 billion in FY 2010, to nearly \$1.4 billion requested in FY 2011. In FY 2011, this will be augmented by additional foreign assistance programs with significant climate co-benefits (our original January 2010 estimate of which was nearly \$400 million, subject to further refining), \$100 million in programs at other agencies, and nearly \$900 million in climate-related export credit and development financing

at ExIm and OPIC. Treasury's multilateral programs include the Climate Investment Funds and the Global Environment Facility. Funding for the Climate Investment Funds has increased from zero in FY 2009, to \$375 million in FY 2010, to \$635 million requested in FY 2011, while funding for the Global Environment Facility has increased from \$80 million in FY 2009, to \$86.5 million in FY 2010, to \$175 million requested in FY 2011.

With the exception of ExIm and OPIC, these programs are all funded through annual appropriations. Therefore, we look forward to working with Congress to secure our FY 2011 and future FY 2012 budget requests. The "fast start" commitment was critical to securing developing country support for the overall Copenhagen Accord, and we believe follow-through on that commitment by the U.S. and other developed countries will be needed in order to maintain developing country support for the Accord going forward.

14. I have been particularly supportive of increasing U.S. contributions to the Least Developed Countries Fund (LDCF), administered by the Global Environment Facility (GEF), which provides grants for climate change adaptation programs developed with input from local governments and civil society, and aimed at meeting the most and urgent needs of the most vulnerable developing countries.

Just as important as this critical mission is that funding through the GEF is accountable to the UNFCCC, and its internationally agreed upon climate targets.

In planning for long-term contributions for climate financing, and to ensure an equitable and effective commitment to clean energy standards, does the Administration support the creation of a green climate fund under the authority of and accountable to the UNFCCC?

The Climate Investment Funds are envisioned to sunset after 2012, and there will be a need for a multilateral fund capable of financing large-scale investments in mitigation and adaptation. The Administration therefore supports the establishment of a Copenhagen Green Climate Fund. As called for in the Copenhagen Accord, this Fund would be an operating entity of the financial mechanism of the UNFCCC. This means it is "under the guidance of and accountable to" the Convention, but executive authority rests with a Board with equal representation by net contributor and net recipient countries. The Fund would support projects, programs, policies and other activities in developing countries related to mitigation including reduced deforestation, adaptation, capacity-building, and technology development and transfer. A significant amount of multilateral funding would flow through this fund. The United States is playing a leading role in all deliberations, both through UN channels and otherwise, that will lead to the establishment of the fund.

15. While appropriations will be part of the mix in meeting U.S. climate commitments, other sources of public finance will likely be needed to supplement these funds. Two mechanisms for generating climate finance which have recently attracted increased attention are a financial transaction tax and the use of IMF special drawing rights.

Can you comment on your interest in both of these mechanisms?

The Administration is open to evaluating a range of new sources of funding with which to supplement annual appropriations. Within this range, we consider a financial transactions tax and the use of Special Drawing Rights (SDRs) to be among the less promising options.

Implementing the transactions tax would require substantive changes in U.S. law to relinquish our sovereign authority over raising and spending tax revenue. Moreover, although even a modest tax appears to be a potentially large source of funds, unless other countries also agreed to it, actual revenues generated would be reduced by financial transactions moving offshore to those countries that do not impose the tax.

Use of SDRs is similarly problematic. Various SDR proposals could require amendments to existing U.S. law to allow use of U.S. SDRs for climate purposes, amendments of the IMF Articles of Agreement, and authorizing legislation to allow USG support for such amendments, and would have budgetary implications. Using SDRs for climate finance would also make them unavailable for their fundamental purpose, which is to address balance of payments and financial stabilization.

What other options do you foresee for the U.S. to meet its commitments to climate finance?

The Administration is open to evaluating a range of new sources of funding with which to supplement annual appropriations. In general, we believe that revenue options should be linked to greenhouse gas emissions, minimize inefficient distortions in economic activity, and remain under the control of U.S. authorities. One option that meets these tests is the set aside of auctioned allowances under a domestic cap and trade program, as proposed in the Waxman-Markey climate bill passed last year. The Administration is studying various other options.

The High Level Advisory Group on Climate Financing (AGF) under the UN has been established to study the contribution from potential sources of revenue. The United States is actively participating in the work of this Group, represented by Assistant to the President for Economic Policy and Director of the National Economic Council, Lawrence Summers, with support from the Treasury Department. The AGF will conduct its work over the next several months.

Questions from Representative Dennis Rehberg (R-MT)

- 1. So far, only two other countries (Spain and Canada) have committed to funding the Global Agriculture and Food Security Program. Do you anticipate that other countries will commit to the program?**

Since Secretary Geithner's testimony, South Korea has pledged \$50 million to the trust fund – and is expected to make its second contribution in the second half of 2010. This is a significant milestone for the trust fund as it demonstrates its potential to mobilize resources from non-traditional donors.

- 2. What percentage of the fund do you believe is an appropriate level for the U.S. to be responsible for funding?**

In the first few years of the fund, we believe that the United States should account for the largest share of the fund's financing (\$475 million, demonstrating leadership towards a multilateral approach to food security, ensuring rapid results of our investments, and leveraging our resources by mobilizing other donors. Over the life of the fund, however, an appropriate level for the United States would be in the range of up to 25 percent of total financing as other donors join the trust fund, in large part responding to our initial commitment to the fund.

- 3. Given that eligibility for the Global Agriculture and Food Security Program is based on eligibility for the International Development Association (IDA), is it necessary to create an entire new program as opposed to modifying the IDA program?**

IDA clearly will play a critical role going forward in agricultural development, but it cannot by itself reverse the significant decline in agriculture investment over the past three decades (official development assistance devoted to agriculture in 1979 was 18 percent but declined to just 4 percent in 2004) and keep donor attention focused on agriculture. IDA funds rely on performance based allocations for countries, and IDA funds cannot be targeted to specific sectors. The trust fund provides a sector specific, additional and flexible pool of resources for the agriculture sector.

It is also important to note that while the first criterion for eligibility for GAFSP financing is that a country must be eligible for IDA, that is only one of several eligibility criteria which include: 1) a level of food insecurity in the country (i.e., only countries that are highly food insecure will be eligible); and 2) a country's policy environment; 3) and readiness demonstrated by the development of an agricultural strategy and a significant budgetary commitment by the country.

In sum, we expect the trust fund to be a critical source of additional and focused funding for agricultural development that will work alongside of and in coordination with IDA and other sources of concessional financing, such as the African Development Fund and the International Fund for Agricultural Development.

4. A portion of the Global Agriculture and Food Security Program is slated to support the private sector. Can you elaborate on how this part of the program would function and what the U.S. commitment is?

Public sector investments in the agricultural sector are important for catalyzing higher levels of agricultural productivity, reducing post-harvest loss, and connecting farmers to markets. Public investments, including official development assistance alone, however, will not unleash the potential of agriculture. The GAFSP's private sector window recognizes that the agricultural sector's sustainability depends on well-functioning markets and a robust private sector. It will provide financing and offer advisory services to help small- and medium-sized agribusinesses in poor countries grow and thrive. As the initial supervising entity for the private sector window, the IFC will put its own resources into this window, helping to leverage the contributions of the donors.

We have expressed interest in contributing to this part of the program given the important role of the private sector in boosting agricultural productivity and incomes of small farmers. The United States intends to make a contribution to the private sector window and we are currently in discussions with other GAFSP donors and the IFC about the amount and hope to resolve this question before the June G-8 and G-20 Summits in Canada.

5. Is there authorization legislation for the U.S. to commit to funding the GAFSP Trust Fund? Are we putting the cart before the horse by appropriating first and legislating later?

We have been in discussions with the authorizers and are preparing a request for authorization based on those discussions. Our goal is to achieve authorization and appropriations for the requested trust fund contribution this year, and we are prepared to be fully responsive to the appropriators and authorizers in determining the best path forward.

6. There has been some discussion that recipient countries may be members of the governing board. Does this present a conflict of interest?

The trust fund is designed so that potential recipient countries will be members of the Steering Committee just as is the case with the Climate Technology Fund (CTF) and the other components of the Climate Investment Funds. Including potential recipient country representatives on the Steering Committee has a number of advantages. Providing poor countries a voice in the use of the fund's resources increases the legitimacy of the fund and increases the poor countries' sense of ownership. We will also press for recipient country representatives on the GAFSP Steering Committee to actively assist with fundraising, emphasizing to the international community the importance of the fund in assisting poor countries' efforts to address hunger. And the presence of recipient country representatives will also help to promote mutual accountability and strengthen oversight.

That said, we are very mindful of the need to ensure that the United States has a decisive voice in the trust fund's operations and funding decisions. As in the CTF model, we will exercise an

effective veto over decisions in the Steering Committee, and as a result, no funding commitments from the public sector window or policy decisions will be able to go forward over our objections. Further, recipient country representatives will recuse themselves if proposals for their respective countries come to the Board in order to avoid a direct conflict of interest.

THE WALL STREET JOURNAL.

Corporate News: Caterpillar Prohibits Iran Sales --- Heavy-Equipment Maker's Decision Follows Pressure From Lobbyist Group

By Chip Cummins
 710 words
 2 March 2010
 The Wall Street Journal
 J
 B2
 English
 (Copyright (c) 2010, Dow Jones & Company, Inc.)

DUBAI — Caterpillar Inc. has prohibited its non-U.S. subsidiaries from accepting orders known to be headed to Iran, the heavy-equipment manufacturer said in a letter to a lobbyist group.

Caterpillar, of Peoria, Ill., has acknowledged in the past that its equipment is sold in Iran despite U.S. sanctions that prohibit most American exports to the Islamic Republic. The company has said its foreign subsidiaries have conducted limited sales to independent dealers outside Iran, which resell to customers inside the country. Caterpillar has said those sales have been in compliance with U.S. regulations.

As recently as late last year, closely held Arya Machinery, with offices in Tehran, marketed itself on its Web site as Iran's exclusive dealer of Caterpillar equipment. A senior Arya sales executive told The Wall Street Journal in October that Arya buys equipment from a Caterpillar subsidiary in Europe.

But it has become more difficult for many multinationals to shoulder the public-relations burden that has come with even limited business with Iran. German engineering conglomerate Siemens AG in late January said it would wind down its Iranian business and not accept any more orders from the country.

Meanwhile, the Obama Administration has threatened tighter economic sanctions, should Iran continue to defy pressure to curb its nuclear program. That has heightened political and reputational risk for companies continuing to sell products or services there.

Treasury Department officials, meanwhile, have tightened enforcement of existing export restrictions related to American business dealings with Iran. There is no indication the Treasury has raised issues with Caterpillar's Iranian sales.

The lobby group that claimed credit for Caterpillar's reversal, United Against Nuclear Iran, has turned up the heat recently on U.S. and European companies. The group is led by a number of former Democratic and Republican national-security officials, including R. James Woolsey, former director of the Central Intelligence Agency under former President Bill Clinton. UANI President Mark Wallace was a deputy campaign manager for former President George W. Bush in 2004 and then served as a diplomat to the United Nations during the Bush administration.

UANI recently erected a billboard near Caterpillar's headquarters featuring company equipment and Iranian President Mahmoud Ahmadinejad. The billboard read, "Today's work/Tomorrow's Nuclear Iran? Stop Cat's Business in Iran." UANI said it would take the billboard down after Caterpillar's decision.

"We applaud Caterpillar's decision to prohibit its non-U.S. subsidiaries from doing business in Iran," Mr. Wallace said in a weekend press release announcing the decision.

In a letter to Mr. Wallace, dated Feb. 25 and released by UANI, Caterpillar Chairman and Chief Executive James Owens said Caterpillar's indirect business with Iranian buyers amounts to less than two-tenths of one percent of 2009 world-wide sales. He said many of the sales of Caterpillar products inside Iran weren't connected to its foreign subsidiaries and the company "has no legal means to control" this secondary market.

In an email Monday, a Caterpillar spokesman said the company "now has gone a step further by prohibiting its non-U.S. subsidiaries from accepting any orders for Caterpillar machines, engines and new parts where the subsidiary knows that the product would be shipped to Iran."

General Electric Co. also has done business in postrevolution Iran through foreign subsidiaries, selling energy-related products and health-care equipment. But as rhetoric heated up on Iran's nuclear activities, GE's board voted in 2005 to stop new business there.

Page 10 of 11 2010 Factiva, Inc. All rights reserved.

Cisco unveiled a router that can transmit three times as much Web data as its current gear, but the introduction won't directly translate into faster connections for consumers.

Sanofi and Merck plan to re-form a venture that would be the world's largest seller of animal medications.

EADS swung to a loss in 2009 as problem contracts weighed on earnings despite solid underlying results.

Barclays is seeking a retail lender that would extend the presence of Barclays Capital in the U.S.

The Black & Decker CEO stands to get a deal that may top \$89 million after three years if his company merges with Stanley Works.

Many novices with not-so green thumbs are diving into their gardens. But all too often their efforts never get out of the ground.

[License this article from Dow Jones Reprint Service](#)

Document J000000020100310e63a0003n

UANI, beginning in September 2008, had challenged GE, of Fairfield, Conn., to demonstrate it was no longer doing business in Iran. On Sept. 18, 2009, General Electric's chief counsel, Brackett Denniston, signed a public declaration saying GE wouldn't engage in business in Iran except for authorized humanitarian goods and services. UANI certified that GE wasn't doing business in Iran and removed GE from its list of about two dozen U.S. companies it alleged were doing business with Iran. GE is the only company to sign the declaration, UANI says.

Paul Glader contributed to this article.

[License this article from Dow Jones Reprint Service](#)

Document J000000020100302e6320000p

**UNITED
AGAINST
NUCLEAR
IRAN**

P.O. Box 1028 | New York, NY 10185-1028 | (212) 554-3296

February 4, 2010

Mr. James W. Owens
CEO, Caterpillar
100 North East Adams Street
Peoria, Illinois USA 61629

Re: Caterpillar, SEC Disclosure and Tunneling Projects in Iran

Dear Mr. Owens:

United Against Nuclear Iran ("UANI") has learned that Caterpillar conducts extensive business in Iran. The purpose of this letter is to clarify those dealings. Arya Machinery is the exclusive dealer of Caterpillar in Iran and maintains an office in Iran. Lovat is a subsidiary of Caterpillar and conducts tunnel-boring projects in Iran. Arya Machinery and Lovat both list their connections with Iran on their respective websites. UANI and its supporters believe that Caterpillar's decision to do business in Iran is wrong and has added Caterpillar, Arya Machinery and Lovat to our Iran Business Registry ("IBR").

According to the Caterpillar Business Conduct Guidelines:

While we conduct our business within the framework of applicable laws and regulations, for us, mere compliance with the law is not enough. We strive for more than that. Through our Code of Conduct, we envision a work environment all can take pride in, a company others respect and admire, and a world made better by our actions. Together, we are laying the foundation for the values-based culture that will carry us forward to even higher levels of success. "Living by the Code," *Caterpillar Code of Conduct*.

Conducting business in Iran is certainly a violation of this creed.

In the face of overwhelming bipartisan support in the U.S. Congress to economically isolate Iran's oil and natural gas industry, Caterpillar continues to make its machinery available for use in the development of Iran's oil industry. For example, Fater Kosaran Janoob, a Tehran-based construction and engineering company that has performed several projects in the immense South Pars gas field, employs a wide array of Caterpillar vehicles in its work. Fater Kosaran Janoob employs a Caterpillar heavy machinery fleet of 32 bulldozers, 35 dump trucks, 22 loaders and 15 Caterpillar power generators. Other Iranian construction companies employ Caterpillar equipment including the Iranian Offshore Engineering and Construction Company and the Abej Construction Company.

Ambassador Mark D. Wallace | President & CEO | MWallace@uani.com

UNITED AGAINST NUCLEAR IRAN

P.O. Box 1028 | New York, NY 10185-1028 | (212) 554-3296

As I am sure you are aware, the Iranian Revolutionary Guard Corps (IRGC) is the dominant ideological entity in Iran that pervades Iran's society and economy. It oversees Iran's nuclear and missile programs, many of its vast engineering projects and is heavily involved in if not the leader of Iran's major oil and gas projects, such as those in South Pars. Given the prevalence of Caterpillar products in Iran and especially in the South Pars field, it is clear that the IRGC is a major beneficiary, owner and operator of Caterpillar's machinery. To this day Iran defies the international community by secretly developing illegal nuclear weapons. It is the world's leading state sponsor of terrorism – supporting groups such as Hamas and Hezbollah. Iran has supported the Iraqi insurgency, resulting in the deaths of heroic American soldiers. The human rights violations that the Iranian regime perpetrated on its own people in the wake of last year's fraudulent Iranian election were appalling. Yet, Caterpillar very comfortably does business in Iran.

Even more disconcerting is the potential use of Caterpillar's tunneling equipment. Iran uses tunnels to hide and protect the components and the extent of its nuclear facilities. In late September, President Obama, Prime Minister Brown and President Sarkozy revealed to the world that Iran was operating a secret uranium enrichment plant near Qum that could only be used for military purposes. On January 5, 2010 the New York Times reported that:

Over the past decade, Iran has quietly hidden an increasingly large part of its atomic complex in a network of tunnels and bunkers across the country. In doing so, American government and private experts say, Iran has achieved a double purpose. Not only has it shielded its infrastructure from military attack in warrens of dense rock, but it has further obscured the scale and nature of its notoriously opaque nuclear effort. "Iran Shielding Its Nuclear Efforts in Maze of Tunnels," *New York Times*, January 5, 2010.

Clearly, Iran relies on tunnel-boring equipment and heavy machinery to construct its nuclear facilities and to hide and protect its nuclear capabilities from the international community.

UANI calls on Caterpillar to clarify, definitively, whether its tunneling equipment or heavy machinery in Iran is used in the development and construction of Iran's nuclear facilities. Such use would, of course, be cause for great concern by the international community. Iran's ability to construct tunnels to conceal its nuclear program dramatically inhibits the ability of the UN's International Atomic Energy Agency to monitor Iran's illicit nuclear program.

Simply put, given the extensive use of Caterpillar machinery in Iran, Caterpillar has some tough questions that it must answer.

Ambassador Mark D. Wallace | President & CEO | MWallace@uani.com

UNITED AGAINST NUCLEAR IRAN

P.O. Box 1028 | New York, NY 10185-1028 | (212) 554-3296

What steps does Caterpillar take within Iran's closed society to reach assurance that its equipment can, in no way, be used to support Iran's illegal nuclear program?

Given Iran's sponsorship of terrorism, its pursuit of illegal nuclear weapons and its gross human rights violations, why would Caterpillar sell its machinery into Iran even for benign purposes?

Do Caterpillar's vows of corporate responsibility not apply to sponsors of terrorism?

Does the convenience of a Caterpillar foreign subsidiary making the sales into Iran somehow allow you a clean conscience to accept the profits of such sales?

UANI calls on Caterpillar to cease doing business in Iran. By conducting business in Iran, Caterpillar provides support to the Iranian regime. For Iran, the decision to continue to pursue nuclear weapons comes down to a simple cost-benefit analysis: Do the benefits of having a nuclear capability outweigh the costs of international economic isolation? Caterpillar, by ceasing its business dealings in Iran, can send a clear message to Iran that it will not conduct business with a regime that is illegally developing nuclear weapons.

General Electric recently partnered with UANI and signed the Iran Business Declaration, affirming that they will not do business in Iran. Huntsman Corporation also committed to sever its business ties in Iran. Siemens has committed to forego new business in Iran. Attached to this letter is our Iran Business Declaration for your review. We ask that you sign it and we urge Caterpillar to immediately cease all business dealings in Iran including the sale of spare parts.

We write also to call your attention to a very serious issue involving deficiencies in your company's public filings, specifically, your company's ongoing failure to disclose any of Caterpillar's activities in, and risks of doing business with, Iran.

As you know, Caterpillar frequently avails itself of the U.S. capital markets, raising billions of dollars through the sale of its equity and debt securities to individual and institutional investors in the United States. As your company's securities are sold pursuant to the U.S. Securities Act of 1933 and are registered under the U.S. Securities Exchange Act of 1934 and listed on the New York Stock Exchange, you are required to comply with the securities laws and regulations of the United States and to provide investors with timely, full and accurate disclosure of all material information concerning your operations and financial condition, as well as any risk factors that could affect your operations, financial position or future financial performance. In particular, U.S. Securities and Exchange Commission ("SEC") regulations require you to disclose with specificity the nature and extent of, and the risks associated with, your business activities involving state sponsors of terrorism such as Iran.

Ambassador Mark D. Wallace | President & CEO | MWallace@uani.com

**UNITED
AGAINST
NUCLEAR
IRAN**

P.O. Box 1028 | New York, NY 10185-1028 | (212) 554-3296

A review of your company's filings with the SEC reveals zero disclosure regarding your company's dealings with Iran. Such a failure to disclose is a violation of SEC requirements. Investors have a legal right to know how Caterpillar's overall business could be affected as a result of your violations of the SEC's disclosure obligations and existing U.S. laws, such as the Iran Sanctions Act. In addition to your failure to adequately disclose the risk of sanctions, your SEC filings do not contain any discussion of the substantial risks posed by the ongoing movement by pension funds and other large institutional shareholders to divest from companies with business ties to countries such as Iran, which support terrorism and threaten global security.

As a result of your failure to disclose your business in Iran, you are exposing the company to the risk of enforcement actions by the SEC as well as shareholder class actions. We are furnishing copies of this letter to the SEC and the New York Stock Exchange and have urged each of them to launch a full investigation into Caterpillar's disclosure practices. UANI will continue monitoring your disclosures with regard to your Iran business.

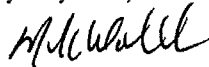
Please be advised that UANI, with the support of its tens of thousands of activists, will take any and all action we deem necessary to hold Caterpillar accountable for its inappropriate business relationships in Iran and its unlawful and inadequate disclosure related to such business. In the event Caterpillar continues its business operations in Iran and fails to adequately disclose the risks of such business, UANI will pursue appropriate legal action against Caterpillar, will call on the New York Stock Exchange to delist Caterpillar and will assist the many Caterpillar shareholders who oppose Caterpillar's activities in Iran.

Caterpillar is a great company that employs many Americans in these tough times and neither UANI nor its tens of thousands of activists seek to gratuitously harm Caterpillar's business. But Caterpillar's business in Iran must stop and UANI's activists are prepared to take appropriate and legal steps to ostracize Caterpillar for its irresponsible actions related to its machinery sales in Iran.

Given the urgent nature of this issue please let me hear from you on or before February 19, 2010 with your response.

I look forward to your response.

Very Truly Yours,



Ambassador Mark D. Wallace

Ambassador Mark D. Wallace | President & CEO | MWallace@uani.com

**UNITED
AGAINST
NUCLEAR
IRAN**

P.O. Box 1028 | New York, NY 10185-1028 | (212) 554-3296

cc: Mary L. Schapiro
Chairwoman, United States Securities Exchange Commission

Adam J. Szubin
Director, Office of Foreign Assets Control, U.S. Department of the Treasury

Duncan L. Niederauer
Chief Executive Officer, New York Stock Exchange

W. Frank Blount
Chairman and CEO of JI Ventures, Inc.

John R. Brazil
President of Trinity University

Daniel M. Dickinson
Managing Partner of Thayer | Hidden Creek

John T. Dillon
Former Chairman and CEO of International Paper

Eugene V. Fife
Managing Principal of Vawter Capital LLC

Gail D. Fosler
President and Trustee of The Conference Board, Inc.

Juan Gallardo
Chairman of Grupo Embotelladoras Unidas S.A. de C.V.

David R. Goode
Former Chairman, President and CEO of Norfolk Southern Corporation

Peter A. Magowan
Former President and Managing General Partner of the San Francisco Giants

William A. Osborn
Chairman and former CEO of Northern Trust Corporation and The Northern Trust Company

Ambassador Mark D. Wallace | President & CEO | MWallace@uani.com

**UNITED
AGAINST
NUCLEAR
IRAN**

P.O. Box 1028 | New York, NY 10185-1028 | (212) 554-3296

-
- Charles D. Powell
Chairman of Capital Generation Partners, LVMH Services Limited and Magna Holdings
- Susan C. Schwab
Professor, University of Maryland School of Public Policy
- Joshua I. Smith
Chairman and Managing Partner of the Coaching Group, LLC
- Richard Lacaille
Chief Investment Officer, State Street Global Advisors
- Gus Sauter
Chief Investment Officer, Vanguard Group, Inc.
- Edward B. Rust, Jr.
Chief Executive Officer, State Farm Insurance Companies
- Bob Doll
Chief Investment Officer, BlackRock Institutional Trust Company, N.A.
- Seth J. Masters
Chief Executive Officer, Blend Strategies and Chief Investment Officer, AllianceBernstein Defined Contribution Investments (ABDC)
- Douglas J. Peebles
Executive Vice President, Chief Investment Officer and Head of AllianceBernstein Fixed Income
- Howard B. Schow
Chief Investment Officer, PRIMECAP Management Company
- Frank D. Catrickes
Partner, Senior Vice President, and Portfolio Manager, Wellington Management Company, LLP
- Robert M. Levy
Partner, Chairman, and Chief Investment Officer, Harris Associates L.P.

Ambassador Mark D. Wallace | President & CEO | MWallace@uani.com

**UNITED
AGAINST
NUCLEAR
IRAN**

P.O. Box 1028 | New York, NY 10185-1028 | (212) 554-3296

William R. Ebsworth
Chief Investment Officer, Fidelity Management & Research

Charles F. Pohl
Chief Investment Officer, Dodge & Cox Funds

Ambassador Mark D. Wallace | President & CEO | MWallace@uani.com



P.O. Box 1028 | New York, NY 10185-1028 | (212) 554-3296

United Against Nuclear Iran/Iran Business Declaration

The undersigned [Name], the [Title] of Caterpillar (the "Company"), does hereby certify on behalf of the Company, and not in the undersigned's personal capacity, that neither the Company nor any Affiliate¹ of the Company, directly or through an agent, representative or intermediary:

- (1) Is or is currently planning on engaging in any business or in providing any goods or services in Iran or with Iranian-based business anywhere in the world except for the provision of goods or services to relieve human suffering in Iran or as part of news gathering for the dissemination of news and information about Iran worldwide;
- (2) Is or will be a party to any agreement with any Iranian business or other entity or Iranian governmental authority, or the owner of an equity interest in, any Iranian entity, or;
- (3) Owns or operates any plant, property, equipment or other assets located in Iran.

The undersigned hereby authorizes United Against Nuclear Iran to publicly disclose the contents of this Certificate.

Dated this ____ day of ____, 2010.

I declare (or certify, verify, or state) under penalty of perjury that the foregoing is true and correct. Executed on MM/DD/YYYY.

Signed by:
(Name)
(Title)
(Company)

¹ "Affiliate" means any individual or entity that directly or indirectly controls, is controlled by, or is under common control with, the Company, including without limitation direct and indirect subsidiaries of the Company

Ambassador Mark D. Wallace | President & CEO | MWallace@uani.com

**UNITED
AGAINST
NUCLEAR
IRAN**

P.O. Box 1028 | New York, NY 10185-1028 | (212) 554-3296

February 11, 2010

Mr. James W. Owens
CEO, Caterpillar
100 North East Adams Street
Peoria, Illinois USA 61629

Re: Caterpillar and Newly Designated IRGC-related Construction Entities

Dear Mr. Owens:

Following my letter to you of February 4, 2010, the United States Treasury Department, Office of Foreign Assets Control (OFAC) took steps on February 10, 2010 to designate certain Iranian Islamic Revolutionary Guard Corps (IRGC) related entities. The press release is attached. As you will see, the emphasis on these most recent Treasury designations is on IRGC related entities in Iran that are involved in the construction industry.

Today's designations include IRGC General Rostam Qasemi, who is also the commander of Khatam al-Anbiya Construction Headquarters, the engineering arm of the IRGC that serves to help the IRGC generate income and fund its operations. Khatam al-Anbiya is owned or controlled by the IRGC and is involved in the construction of streets, highways, tunnels, water conveyance projects, agricultural restoration projects, and pipelines.

"As the IRGC consolidates control over broad swaths of the Iranian economy, displacing ordinary Iranian businessmen in favor of a select group of insiders, it is hiding behind companies like Khatam al-Anbiya and its affiliates to maintain vital ties to the outside world," said Under Secretary for Terrorism and Financial Intelligence Stuart Levey. "Today's action exposing Khatam al-Anbiya subsidiaries will help firms worldwide avoid business that ultimately benefits the IRGC and its dangerous activities."

U.S. Department of the Treasury, "Treasury Targets Iran's Islamic Revolutionary Guard Corps," Press Room, February 10, 2010. As we suggested previously, there is simply no reasonable manner by which Caterpillar may ensure that its heavy equipment sold into Iran is not used by the IRGC.

Caterpillar must stop doing business in Iran. Even under the thin veil of deniability offered by conducting sales through a foreign subsidiary and/or through other middlemen,

Ambassador Mark D. Wallace | President & CEO | MWallace@uani.com

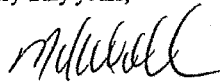
370

Caterpillar must bear responsibility for the sale of its equipment into the world's leading state sponsor of terrorism that seeks illegal nuclear weapons.

Please consider the grave importance of this most recent designation by the Treasury Department in your response to my previous letter.

Thank you for your attention to this matter.

Very truly yours,

A handwritten signature in black ink, appearing to read 'M. Wallace', written in a cursive style.

Ambassador Mark D. Wallace

U.S. Department of the Treasury
 Press Room
 February 10, 2010
 tg-539
<http://www.ustreas.gov/press/releases/tg539.htm>

Treasury Targets Iran's Islamic Revolutionary Guard Corps

WASHINGTON -- The U.S. Department of the Treasury today took further action to implement existing U.S. sanctions against Iran's Islamic Revolutionary Guard Corps (IRGC) by designating an individual and four companies affiliated with the IRGC pursuant to Executive Order (E.O.) 13382, which freezes the assets of designated proliferators of weapons of mass destruction (WMD) and their supporters. Today's action focuses in particular on Khatam al-Anbiya Construction Headquarters, an arm of the IRGC designated pursuant to E.O. 13382 in 2007.

Today's designations include IRGC General Rostam Qasemi, who is also the commander of Khatam al-Anbiya Construction Headquarters, the engineering arm of the IRGC that serves to help the IRGC generate income and fund its operations. Khatam al-Anbiya is owned or controlled by the IRGC and is involved in the construction of streets, highways, tunnels, water conveyance projects, agricultural restoration projects, and pipelines. Treasury also today designated four companies that are owned or controlled by, or that act on behalf of, Khatam al-Anbiya.

"As the IRGC consolidates control over broad swaths of the Iranian economy, displacing ordinary Iranian businessmen in favor of a select group of insiders, it is hiding behind companies like Khatam al-Anbiya and its affiliates to maintain vital ties to the outside world," said Under Secretary for Terrorism and Financial Intelligence Stuart Levey. "Today's action exposing Khatam al-Anbiya subsidiaries will help firms worldwide avoid business that ultimately benefits the IRGC and its dangerous activities."

The following are subsidiary companies that are owned or controlled by Khatam al-Anbiya, or that act on its behalf, and directly support various mining and engineering projects:

- Fater Engineering Institute
- Imensazen Consultant Engineers Institute (ICEI)
- Makin Institute
- Rahab Institute

The IRGC has a growing presence in Iran's financial and commercial sectors and extensive economic interests in the defense production, construction, and oil industries, controlling billions of dollars of business. The profits from these activities are available to support the full range of the IRGC's illicit activities, including WMD proliferation and support for terrorism.

The U.S. has previously acted against the IRGC and the IRGC-Qods Force for their involvement in proliferation and terrorism support activities, respectively. In joint actions on October 25, 2007, the State Department designated the IRGC, under E.O. 13382, for having engaged, or attempted to engage, in proliferation-related activities, and Treasury designated the IRGC-Qods

Force pursuant to E.O. 13224 for providing material support to the Taliban and other terrorist organizations. Treasury at that time also designated nine IRGC-affiliated entities, including Khatam al-Anbiya, and five IRGC-affiliated individuals as derivative designations of the IRGC.

Those entities and individuals are:

- Khatam al-Anbiya Construction Headquarters
- Oriental Oil Kish
- Ghorb Nooh
- Sahel Consultant Engineering
- Ghorb-e Karbala
- Sepasad Engineering Co
- Omran Sahel
- Hara Company
- Gharargahe Sazandegi Ghaem
- General Hosein Salimi, Commander of the Air Force, IRGC
- Brigadier General Morteza Rezaie, Deputy Commander of the IRGC
- Vice Admiral Ali Akhbar Ahmadian, in his former capacity as Chief of the IRGC Joint Staff
- Brigadier Gen. Mohammad Hejazi, in his former capacity as Commander of Bassij resistance force
- Brigadier General Qasem Soleimani, Commander of the Qods Force

Elements of the IRGC have also been designated for UN sanctions pursuant to UN Security Council Resolutions (UNSCRs) 1737 and 1747. All UN Member States are required to freeze the assets of entities and individuals listed in the Annexes of those resolutions, or designated by the UNSCR 1737 Committee, as well as assets of entities owned or controlled by them or by persons or entities acting on their behalf or at their direction and to prevent funds or economic resources from being made available for their benefit. The European Union has also designated IRGC-affiliated companies, including Khatam al-Anbiya, for their support to Iranian ballistic missile and nuclear programs.

###

cc: Mary L. Schapiro
Chairwoman, United States Securities Exchange Commission

Adam J. Szubin
Director, Office of Foreign Assets Control, U.S. Department of the Treasury

Duncan L. Niederauer
Chief Executive Officer, New York Stock Exchange

W. Frank Blount
Chairman and CEO of JI Ventures, Inc.

John R. Brazil
President of Trinity University

Daniel M. Dickinson
Managing Partner of Thayer | Hidden Creek

John T. Dillon
Former Chairman and CEO of International Paper

Eugene V. Fife
Managing Principal of Vawter Capital LLC

Gail D. Fosler
President and Trustee of The Conference Board, Inc.

Juan Gallardo
Chairman of Grupo Embotelladoras Unidas S.A. de C.V.

David R. Goode
Former Chairman, President and CEO of Norfolk Southern Corporation

Peter A. Magowan
Former President and Managing General Partner of the San Francisco Giants

William A. Osborn
Chairman and former CEO of Northern Trust Corporation and The Northern Trust Company

Charles D. Powell
Chairman of Capital Generation Partners, LVMH Services Limited and Magna Holdings

Susan C. Schwab
Professor, University of Maryland School of Public Policy

- Joshua I. Smith
Chairman and Managing Partner of the Coaching Group, LLC
- Richard Lacaille
Chief Investment Officer, State Street Global Advisors
- Gus Sauter
Chief Investment Officer, Vanguard Group, Inc.
- Edward B. Rust, Jr.
Chief Executive Officer, State Farm Insurance Companies
- Bob Doll
Chief Investment Officer, BlackRock Institutional Trust Company, N.A.
- Seth J. Masters
Chief Executive Officer, Blend Strategies and Chief Investment Officer,
AllianceBernstein Defined Contribution Investments (ABDC)
- Douglas J. Peebles
Executive Vice President, Chief Investment Officer and Head of
AllianceBernstein Fixed Income
- Howard B. Schow
Chief Investment Officer, PRIMECAP Management Company
- Frank D. Catrickes
Partner, Senior Vice President, and Portfolio Manager, Wellington Management
Company, LLP
- Robert M. Levy
Partner, Chairman, and Chief Investment Officer, Harris Associates L.P.
- William R. Ebsworth
Chief Investment Officer, Fidelity Management & Research
- Charles F. Pohl
Chief Investment Officer, Dodge & Cox Funds



Caterpillar Inc.

100 NE Adams Street
Peoria, Illinois 61629

February 25, 2010

BY E-MAIL & FIRST CLASS MAIL

Ambassador Mark D. Wallace
United Against Nuclear Iran
P.O. Box 1028
New York, NY 10185-1028

Re: **Caterpillar Inc.'s Response to United Against Nuclear Iran**

Dear Mr. Ambassador:

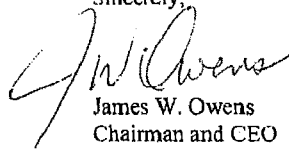
Caterpillar Inc. received your letters of February 4th, 11th and 12th. These letters outline a point of view on an important issue of international affairs, namely, organizing public and commercial pressure on the regime currently controlling Iran. Unfortunately, you and your organization have jumped to conclusions about Caterpillar that are not supported by the facts and I respectfully request that you refrain from making further uninformed statements about Caterpillar.

We take very seriously the allegations you and your organization have made about Caterpillar. Let me say first that your letters are not accurate in characterizing Caterpillar as a company with "extensive business in Iran." In fact, Caterpillar does not transact business in Iran. Indirect sales through dealers and distributors of Caterpillar branded products in Iran amount to less than two tenths of one percent of Caterpillar's 2009 worldwide sales and revenues. In no way are these sales material in a quantitative or qualitative sense. Further, as in other markets, many sales of Caterpillar branded products in Iran are sales by unrelated third parties in the secondary market that are in no way connected to Caterpillar or any of its foreign subsidiaries or even its independent dealers. Caterpillar has no legal means to control the secondary market for our products.

To date, the policy of Caterpillar Inc. and its affiliates has been to comply with applicable U.S. export control and economic sanctions laws and regulations. The Iranian Transactions Regulations, in contrast to the Cuban Assets Control Regulations, clearly allow foreign subsidiaries of U.S. parent corporations to sell directly to customers in Iran under certain circumstances. In compliance with these rules, and in the absence of a complete embargo similar to the embargo of Cuba, Caterpillar's foreign subsidiaries have conducted limited sales to independent dealers outside Iran, which in turn sell to customers inside Iran.

Caterpillar is a global enterprise operating through U.S. and non-U.S. subsidiaries around the world. Approximately 180 independently owned dealers market and sell Caterpillar® products to end-users. Caterpillar has no assets, operations or employees in Iran. In full compliance with all applicable laws, including the Iranian Transactions Regulations, Caterpillar's non-U.S. subsidiaries may, under some circumstances, sell products to independent dealers that resell to users in this country. However, Caterpillar has elected to prohibit its non-U.S. subsidiaries from accepting any orders for Caterpillar machines, engines and new parts where the subsidiary knows that the product would be shipped to Iran.

Sincerely,

A handwritten signature in dark ink, appearing to read "J. W. Owens", is written over the typed name.

James W. Owens
Chairman and CEO
Caterpillar Inc.

**UNITED
AGAINST
NUCLEAR
IRAN**

P.O. Box 1028 | New York, NY 10185-1028 | (212) 554-3296

March 1, 2010

Mr. James W. Owens
CEO, Caterpillar
100 North East Adams Street
Peoria, Illinois 61629

Re: Response to Caterpillar's Decision to Stop Doing Business in Iran

Dear Mr. Owens:

Thank you for your letter of February 25th.

I appreciate your acknowledgement that Caterpillar has done business in Iran through its foreign subsidiaries, dealers and distributors.

On behalf of United Against Nuclear Iran, please accept my thanks for your personal commitment that Caterpillar will "prohibit its non-us subsidiaries from accepting any orders for Caterpillar machines, engines and new parts where the subsidiary knows that the product would be shipped to Iran."

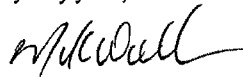
Please ensure that your subsidiaries, dealers and distributors take diligent steps to adhere to your prohibition.

While Caterpillar may consider its operations in Iran as *de minimis* from the perspective of Caterpillar's global balance sheet, Caterpillar equipment has and continues to play a key role in Iran's economy. The Iranian economy is dominated by the Islamic Revolutionary Guard Corps (IRGC), which sponsors terrorism, suppresses the Iranian people and, in violation of international law, is developing a nuclear weapon.

Based upon your personal commitment to prohibit further Caterpillar business in Iran and per Caterpillar's request, we will take down the UANI billboard near your headquarters in Peoria.

Thank you for your interest in this matter.

Very truly yours,



Ambassador Mark D. Wallace

Ambassador Mark D. Wallace | President & CEO | MWallace@uani.com

cc: Mary L. Schapiro
Chairwoman, United States Securities Exchange Commission

Adam J. Szubin
Director, Office of Foreign Assets Control, U.S. Department of the Treasury

Duncan L. Niederauer
Chief Executive Officer, New York Stock Exchange

W. Frank Blount
Chairman and CEO of JI Ventures, Inc.

John R. Brazil
President of Trinity University

Daniel M. Dickinson
Managing Partner of Thayer | Hidden Creek

John T. Dillon
Former Chairman and CEO of International Paper

Eugene V. Fife
Managing Principal of Vawter Capital LLC

Gail D. Fosler
President and Trustee of The Conference Board, Inc.

Juan Gallardo
Chairman of Grupo Embotelladoras Unidas S.A. de C.V.

David R. Goode
Former Chairman, President and CEO of Norfolk Southern Corporation

Peter A. Magowan
Former President and Managing General Partner of the San Francisco Giants

William A. Osborn
Chairman and former CEO of Northern Trust Corporation and The Northern Trust Company

Charles D. Powell
Chairman of Capital Generation Partners, LVMH Services Limited and Magna Holdings

Susan C. Schwab
Professor, University of Maryland School of Public Policy

- Joshua I. Smith
Chairman and Managing Partner of the Coaching Group, LLC
- Richard Lacaille
Chief Investment Officer, State Street Global Advisors
- Gus Sauter
Chief Investment Officer, Vanguard Group, Inc.
- Edward B. Rust, Jr.
Chief Executive Officer, State Farm Insurance Companies
- Bob Doll
Chief Investment Officer, BlackRock Institutional Trust Company, N.A.
- Seth J. Masters
Chief Executive Officer, Blend Strategies and Chief Investment Officer,
AllianceBernstein Defined Contribution Investments (ABDC)
- Douglas J. Peebles
Executive Vice President, Chief Investment Officer and Head of
AllianceBernstein Fixed Income
- Howard B. Schow
Chief Investment Officer, PRIMECAP Management Company
- Frank D. Catricken
Partner, Senior Vice President, and Portfolio Manager, Wellington Management
Company, LLP
- Robert M. Levy
Partner, Chairman, and Chief Investment Officer, Harris Associates L.P.
- William R. Ebsworth
Chief Investment Officer, Fidelity Management & Research
- Charles F. Pohl
Chief Investment Officer, Dodge & Cox Funds

THURSDAY, MARCH 18, 2010.

FY2011 BUDGET REQUEST FOR PEACE CORPS

WITNESS

AARON S. WILLIAMS, DIRECTOR PEACE CORPS

OPENING STATEMENT OF CHAIRWOMAN LOWEY

Mrs. LOWEY. The Subcommittee on State and Foreign Operations and Related Programs will come to order. Oh, Ms. Granger is here just in time. And we apologize in advance—she got over here quick—we apologize in advance because it looks like they are going to be calling votes.

So, we are going to begin and it is my great pleasure to welcome Aaron Williams, the Director of the Peace Corps for his first hearing with us to discuss the President's fiscal year 2011 request for the Peace Corps. Mr. Williams brings a wealth of experience in development to the Peace Corps. He is not only a returned Peace Corps volunteer, but a former senior foreign service officer at USAID and former Vice President for International Business Development with RTI International. Mr. Williams, it is a pleasure to have you testify today.

The President's budget request 446 million for the Peace Corps, a 10 percent increase over the fiscal year 2010 enacted level. The request includes findings to increase volunteers, enhance recruitment efforts, and expand to three new countries. On its 49th anniversary two weeks ago, we mark the Peace Corps' success in promoting American values and ideals throughout the world and increasing understanding of the global community among Americans. Today with 7,800 volunteers in 70 countries, Peace Corps volunteers are integrating into communities providing needed technical assistance and support for development programs and cross cultural exchanges. They are truly indispensable to U.S. foreign policy. Through presidential initiatives and food security and global health, this administration has emphasized working across U.S. government agencies to address the needs of the developing world through engagement with local stakeholders.

We would appreciate insight into the Peace Corps involvement in the various presidential initiatives. Last year, the committee asked the Peace Corps to undertake an assessment of its program model, management, and operations, and can you update us on the progress of that assessment? In the short time you have been director, have you undertaken any initiatives to address the growing needs of the agency and alleviate the management strains of the current structure?

If the Peace Corps funding is to increase at the rate necessary to meet the administration's goal of 11,000 volunteers by fiscal year 2016, the agency must transition quickly to more effective up-to-

date management and evaluation practices. For example, what steps have you taken to ensure that Peace Corps support staff are appropriately trained and empowered to assist volunteers? What monitoring and oversight is in place to measure the effectiveness of programs?

Peace Corps volunteers have been some of the United States strongest ambassadors to the world, maintaining that reputation and influence requires adaptation to growing and changing needs, expeditious recruiting that ensures a high-quality volunteer force, thorough training, quality medical care, and solid support services for return volunteers. Finally and perhaps most importantly, we must ensure there is constant attention to volunteer safety.

I hope you will address these priorities in the coming year. Mr. Williams, I appreciate your testimony today. But before we hear from you, let me turn to Ms. Granger, the ranking member, for her opening statement.

OPENING REMARKS OF MS. GRANGER

Ms. GRANGER. I will be very brief because I want to hear from you. We all do. This is a 12 percent increase over 2010 and 31 percent over 2009, so certainly, we are going to hear about that. Your internal review, how that is going, and how you are making these requests before that assessment has been completed is going to be very important. As the chairman said, the rate of growth is significant, so what is the capacity and the training to manage it? I will turn it over to you again.

Mrs. LOWEY. I think what we will do is proceed and we would be delighted to hear from you.

OPENING STATEMENT OF MR. WILLIAMS

Mr. WILLIAMS. Thank you, very much. Chairman Lowey, ranking member Granger, members of the subcommittee, thank you for the opportunity to appear before the committee today in support of the President's fiscal year 2011 budget request for the Peace Corps. It is my intent, with your permission, to briefly summarize my full testimony that I have submitted for the record.

It has been just over six months since I was sworn in as Director of the Peace Corps. It is an honor for me as a returned Peace Corps volunteer to serve as director, as you can well imagine. It is my distinct privilege to have been asked by President Obama to lead the Peace Corps in the eve of our 50th anniversary and at a time of strategic and quality growth. It is our great responsibility to recruit, train, and support the next generation of volunteers.

Before I discuss the fiscal year 2011 budget request, I would like to thank this committee for its tremendous support of the Peace Corps. The Peace Corps' 2010 appropriation of 400 million is unprecedented expression of support and confidence by the Congress. I recognize this is a time of great economic uncertainty for many Americans. These are difficult times in many ways. Yet they are also times that present new opportunities to serve our country. I believe the Peace Corps represents one of the best value propositions for the United States government overseas.

Our volunteers are grassroots ambassadors for the United States. They represent America's values, generosity, and hope. Today, 7,600 Peace Corps volunteers are serving in 76 host countries. We are charged by the Peace Corps Act to have, at a minimum, 10,000 volunteers in the field each year. The last time the Peace Corps had more than 10,000 was in 1969.

The Peace Corps' budget request for fiscal year 2011 is 446 million dollars. The fiscal year 2011 request will enable the Peace Corps to provide support to 8,500 volunteers serving in approximately 79 countries worldwide in fiscal year 2011. The Peace Corps fiscal year 2011 budget request represents the continuation of the President's initiative to significantly increase the number of Americans serving as Peace Corps volunteers to 9,400 by the end of fiscal year 2012 and 11,000 by the end of fiscal year 2016.

The comprehensive agency wide assessment mandated by Congress in our fiscal year 2010 appropriations is currently underway. I expect this assessment to provide critical information and guidance to position the agency for strategic growth. The Peace Corps plans to submit the findings of this comprehensive assessment to Congress in June of this year.

We plan to invest in quality growth at the Peace Corps. We intend to spend about 80 percent of the proposed fiscal year 2011 budget on direct volunteer operations. Partnerships are an integral part of our growth plans. We will continue to seek to increase strategic partnerships with international and local non-governmental organizations. Through these efforts to explore innovative and strategic partnerships, the agency will expand its geographic reach and enhance the development impact of Peace Corps volunteers.

Our growth model has four key strategies. First, to expand the number of volunteers serving in existing host countries. Second, to encourage third-year extensions of volunteers who have demonstrated extraordinary skills and a desire to continue in a leadership role. Third, we want to increase the number of Peace Corps Response Volunteers. And, finally, fourth, we want to pursue entry into new host countries.

To oversee this growth, I established the Office of Global Operations to provide overarching strategic support and management of the three geographic regions. In addition to adding funds to the field, I am also using our resources to strengthen two of our key offices in Washington that support the health and safety of our volunteers. Keeping Peace Corps volunteers healthy and safe in the challenging circumstances under which they serve is our top objective. We want to invest in recruiting the next generation of volunteers.

Peace Corps, as you know, continues to capture the imagination of Americans interested in public service abroad. In fiscal year 2009, over 15,000 Americans applied for 4,000 positions. The Peace Corps is engaged in an intensified strategic recruitment campaign. The recruitment will continue to rely heavily on the person-to-person efforts of our field-based recruiters in nine regional offices to build a volunteer Corps that reflects the diversity of America. I believe we can do a better job of recruiting volunteers by demonstrating the Peace Corps services are life-changing leadership ex-

perience. I certainly know this firsthand from my own personal experience when I served as a volunteer in the Dominican Republic.

Another way to increase the impact of our recruitment effort is by investing our third goal initiatives. The fiscal year 2011 funds will be used, among other purposes, to promote educational opportunities that place returned Peace Corps volunteers with schools to share their overseas experiences and to develop educational curriculum materials for American classrooms. We can do a better job, I believe, of supporting our volunteers by beginning the process of scaling the benefits of service to more accurately reflect increases in the cost of living. The Peace Corps readjustment allowance has remained the same for the past 11 years. Effective April 1, the readjustment allowance will increase to 275 dollars per month, an increase of 50 dollars per month.

We also want to be innovative. We want to invest in innovation and infrastructure to make sure that we can invest in sustainable impact. I know through careful planning and investment, we can have an even greater impact by creating a culture that values efficiency, transparency, and the sharing of best practices. The agency's new Office of Innovation will manage a bottom-up process across all of our offices and challenge staff to work on the issues that will promote change and support growth. I am also encouraging the agency to share ideas and best practices from the field that might be low-tech but high-impact and also green.

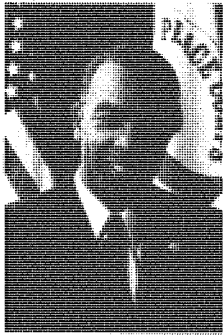
Let me conclude by saying that throughout our history, the Peace Corps has adapted and responded to the issues of the times. Peace Corps priorities should reflect current global realities and the development priorities of our host countries. In fiscal year 2011, Peace Corps growth will continue to focus on sectors such as education, food security, health and HIV/AIDS, environment, and renewable energy.

While times have changed since the Peace Corps' founding in 1961, the agency's mission to promote world peace and friendship has not. Over the last 49 years, almost 200,000 Americans have served in the Peace Corps. I envision a Peace Corps that remains vibrant for another 50 years, one that grows, adapts, and continues to carry the torch of President Kennedy's dream and responds to President Obama's call to service.

I want to thank the Committee again for allowing me to testify in support of the President's budget request. I also appreciate the support the members of the Committee have offered and your willingness to visit our volunteers when you travel around the world. I am pleased to answer your questions and thank you, very much, for this opportunity.

[The information follows:]

Aaron S. Williams, Peace Corps Director



Aaron S. Williams was sworn in as the eighteenth Director of the Peace Corps on August 24, 2009. Nominated by President Barack Obama and confirmed by the U. S. Senate on August 7, 2009, Mr. Williams is the fourth director in the Peace Corps' history to have served as a Peace Corps Volunteer.

Mr. Williams served as a Volunteer from 1967 to 1970, first in a training program for rural school teachers in the small town of Monte Plata, Dominican Republic, and extended his service for a third year to work as a professor of teaching methods at the Universidad Catolica Madre y Maestra in Santiago. Upon completing his service, he became the coordinator of minority recruitment and project evaluation officer for the Peace Corps in his hometown of Chicago (1970-1971).

Mr. Williams has pursued a career in the development and implementation of worldwide assistance programs. Mr. Williams was a vice president for International Business Development with RTI International. He was a senior manager at the U.S. Agency for International Development (USAID), where he attained the rank of Career Minister in the U.S. Senior Foreign Service. He also served as executive vice president of the International Youth Foundation.

As USAID Mission Director in South Africa, Mr. Williams led a billion dollar foreign assistance program during President Nelson Mandela's administration. In addition, he has extensive experience in the design and management of assistance programs in Latin America, Africa, Asia, and the Middle East. He was awarded the USAID Distinguished Career Service Award, and was twice awarded the Presidential Award for Distinguished Service.

He is a member of the Council on Foreign Relations, and he was a member of the USAID Advisory Committee on Voluntary Foreign Aid. He served on the Obama-Biden transition team, the advisory board of the Ron Brown Scholar Program, the board of directors of CARE, and the boards of the Institute for Sustainable Communities, the Pan American Development Foundation, and the National Peace Corps Association.

Mr. Williams is fluent in Spanish. He is a graduate of Chicago State University, and has an MBA from the University of Wisconsin. Mr. Williams met his wife Rosa during his service as a Volunteer in the Dominican Republic. The couple have two sons, Michael and Steven.

As of August 2009



**Testimony of Peace Corps Director Aaron S. Williams
Before the House Appropriations Committee,
Subcommittee on State, Foreign Operations, and Related Programs
Thursday, March 18, 2010**

Chairwoman Lowey, Ranking Member Granger, and Members of the Subcommittee, thank you for this opportunity to appear before the Committee today in support of the President's Fiscal Year (FY) 2011 budget request for the Peace Corps.

It has been just over six months since I was sworn in as Director of the Peace Corps. It is an honor for me as a returned Peace Corps Volunteer to be Director. The past six months have been challenging, but also incredibly satisfying. It is my distinct privilege to have been asked to lead Peace Corps on the eve of our 50th anniversary and at a time of strategic and quality growth. It is our great responsibility to recruit, train and support the next generation of Volunteers.

Before I discuss the FY 2011 budget request, I would like to thank this Committee for its tremendous support of the Peace Corps. The Peace Corps' FY 2010 appropriation of \$400 million is an unprecedented expression of support and confidence by Congress. I recognize that this is a time of great economic uncertainty for many Americans. These are difficult times in many ways, yet they are also times that present new opportunities to serve our country. I believe the Peace Corps represents one of the best value propositions for the U.S. government overseas.

Peace Corps Volunteers represent the best America has to offer. They live and work in host communities thousands of miles away from family and friends, and they are driven by their common desire to make a sustainable difference. Our Volunteers are grassroots ambassadors for the United States; they represent America's values, generosity and hope.

Today, there are over 7,600 Peace Corps Volunteers serving in 76 host countries. We are charged by the Peace Corps Act to have, at a minimum, 10,000 Volunteers in the field each year. The last time Peace Corps had more than 10,000 Volunteers in the field was 1969.

The Peace Corps budget request for FY 2011 is \$446.15 million, an increase of \$46.15 million over the FY 2010 appropriation. The FY 2011 request will enable the Peace Corps to provide support to 8,500 Volunteers serving in approximately 79 countries worldwide in FY 2011. The Peace Corps' FY 2011 budget request represents the second year of the President's initiative to significantly increase the number of Americans serving as Peace Corps Volunteers to 9,400 by the end of FY 2012 and 11,000 by the end of FY 2016.

The comprehensive agency wide assessment mandated by Congress in our FY 2010 appropriation is currently underway. I expect this assessment to provide critical information and guidance to position the agency for strategic growth. The Peace Corps plans to submit the findings of this comprehensive assessment to Congress in June 2010. The results of this assessment will serve as a guide for agency programming and infrastructure investment in FY 2011 and future fiscal years.

INVEST IN QUALITY GROWTH

Peace Corps intends to spend approximately 80 percent of the proposed FY 2011 budget on Direct Volunteer Operations. This is a \$35 million increase, or an 11 percent increase, over 2010 plans. Our growth model has four key strategies:

- First, expand the number of Volunteers serving in existing host countries. This component of the plan will lead to the largest amount of growth. Our FY 2011 budget request will allow us to respond more robustly to the development needs of our existing host countries by pursuing programmatic growth in priority sectors that reflect current global realities.
- Second, encourage third-year extensions of Volunteers who have demonstrated extraordinary skills and a desire to continue in a leadership role. Third-year Volunteers provide our posts with additional leadership experience and a third year of service allows Volunteers to utilize their expertise and knowledge in a manner that benefits the next class of Volunteers. We are looking at different incentives to encourage third-year extensions.
- Third, increase the number of Peace Corps Response Volunteers. We aim to double the size of our Response program in FY 2011 to 400. Peace Corps Response has been utilized successfully as a strategy for new country entries and allows the agency to nimbly respond to relief efforts around the world with trained Volunteers. Peace Corps Response will play a prominent role in the agency's pending re-entry into Haiti and can play a crucial role in quick start-up efforts in new country entries.
- Fourth, pursue entry into new host countries. So far in FY 2010 we have re-entered two countries, Sierra Leone and Indonesia. We are currently exploring possible agreements with a number of countries that have requested Volunteers. With our FY 2011 budget request, we will be able to pursue roughly three new country entries.

To oversee this approach to growth, I established the Office of Global Operations to provide overarching strategic support and management of our three geographic regions. The Office of Global Operations also includes the Office of Overseas Program and Training Support, the Office of AIDS Relief, and Peace Corps Response.

In addition to adding funds to the field, I am also using resources to strengthen two of our key offices in Washington that support the health and safety of our Volunteers. Keeping Peace Corps Volunteers healthy and safe in the challenging circumstances under which they serve is the Peace Corps' top objective. We are currently reviewing the way in which we provide health care to our Volunteers and working to determine whether there are better ways for Peace Corps to evaluate, manage and support the quality of Volunteer medical care in the field. We will soon do the same with our safety and security operations. With growth, we will need more resources to conduct safety and medical assessments in new and current host countries.

In FY 2011, the Peace Corps will continue to seek to increase strategic partnerships with international and local nongovernmental organizations (NGO) and community-based organizations (CBO). The agency will ensure that such partnerships, remain consistent with the Peace Corps'

grassroots community-based approach to development and its statutory authority as an independent U.S. government agency. Through these efforts to explore innovative, strategic partnerships, the agency will expand its geographic reach and enhance the development impact of Peace Corps Volunteers.

INVEST IN RECRUITING THE NEXT GENERATION OF VOLUNTEERS

Peace Corps continues to capture the imagination of Americans interested in public service abroad. In FY 2009, over 15,000 Americans applied for roughly 4,000 Volunteer positions. The agency anticipates a steady increase in the level of interest in Peace Corps. To reach targeted growth numbers and to ensure that the agency continues to identify the best possible candidates to represent the United States abroad, the Peace Corps is engaging in an intensified strategic recruitment campaign. The recruitment approach will continue to rely heavily on the person-to-person efforts of field-based recruiters in nine regional offices in order to build a Volunteer corps that reflects the diversity of America.

I believe we can do a better job of recruiting Volunteers by demonstrating that Peace Corps service is a life changing leadership experience. I know this firsthand, based on my experience in the Dominican Republic. Volunteers return to the United States as global citizens with leadership, language, teaching and development skills that position them well for educational and professional opportunities. Many Volunteers choose to pursue careers in public service. Returned Peace Corps Volunteers are instilled with the training, knowledge and experience those two years of community development fosters.

Another way to increase the impact of our recruitment efforts is by investing in our Third Goal initiatives. I plan to utilize funds from the proposed FY 2011 budget to bolster the operations of the Office of Public Engagement, which manages our Third Goal efforts. The agency's Third Goal, as defined by the Peace Corps Act, is to "help promote a better understanding of other peoples on the part of Americans." The funds will be used, among other purposes, to promote educational opportunities that place returned Peace Corps Volunteers with schools to share their overseas experiences and to develop educational curriculum materials for American classrooms.

We can do a better job of supporting our Volunteers by beginning the process of scaling the benefits of service to more accurately reflect increases in the cost of living. The Peace Corps readjustment allowance has remained the same for the last 11 years. Effective April 1, 2010, the readjustment allowance will increase to \$275 per month, an increase of \$50 per month. This increase means that Volunteers completing a full 27-month tour will receive \$7,425 to help in the readjustment period. The Peace Corps will continue to review the readjustment allowance and will consider future increases as funds allow.

INVEST IN INNOVATION

An investment in innovation and infrastructure is an investment in sustainable impact. I know, through careful planning and investment, we can have an even greater impact by creating a culture that values efficiency, transparency, and the sharing of best practices. The agency's new Office of Innovation will manage a bottom-up process, across all offices, and challenge staff to work on the

issues that will promote change and support growth. I am also encouraging the agency to share ideas and best practices from the field that might be “low-tech” but high-impact and “green.”

Poverty, disease, hunger, and illiteracy are issues that continue to challenge developing countries and, in some cases, are exacerbated by problems like climate change, government instability, and natural disasters. However, the tools that Volunteers utilize have changed. Today, nearly 90 percent of Volunteers in the field have personal cell phones. Volunteers are harnessing mobile phone technology to provide health information through text messaging and to assist farmers to identify the best market prices in their area. In FY 2011, the agency will seek to create new ways to utilize the innovative spirit and creativity of our Volunteers to increase their collective impact and improve project sustainability.

We are emphasizing innovation and transparency through the utilization of new technology. In 2011, we aim to have an up-to-date information technology (IT) system that covers the life span of the Volunteer experience from application through close of service. This will not only streamline the process of recruiting and placing Volunteers, but it will also incorporate a system that logs electronic medical records. This system will enable us to provide better and more coordinated medical care for our Volunteers while also reducing the time and cost involved in processing medical clearances for Peace Corps applicants. These investments in technology solutions will make agency processes more effective and efficient, but most importantly, I believe they will improve the quality of the Volunteer experience.

CONCLUSION

Throughout our history, the Peace Corps has adapted and responded to the issues of the times. Peace Corps priorities should reflect current global realities and the development priorities of our host countries. In FY 2011, Peace Corps growth will continue to focus on sectors such as education, food security, health and HIV/AIDS, environment, and renewable energy.

While times have changed since the Peace Corps’ founding in 1961, the agency’s mission—to promote world peace and friendship—has not. Over the last 49 years, nearly 200,000 Americans have served with the Peace Corps. Each of those Americans touched the lives of countless individuals by encouraging them through the selfless act of volunteering. This is the legacy of President Kennedy’s brave idea.

I envision a Peace Corps that remains vibrant for another 50 years; one that grows, adapts and continues to carry the torch of President Kennedy’s dream and responds to President Obama’s call to service.

I would like to thank the Committee again for allowing me to testify in support of President Obama’s budget request for the Peace Corps. I appreciate the support that the Members of this Committee have offered to our Volunteers over the years, and will be pleased to answer your questions.

Thank you.

###

Mrs. LOWEY. Thank you, sir. I think what we will start with, Ms. Granger, do you have one question before we adjourn for votes.

Ms. GRANGER. In the recommendations from the assessment, I know you are not ready to produce that yet, but tell us what indications you have.

Mr. WILLIAMS. Well, just briefly, and we are looking at seven areas that were included in our appropriation. Our team has been working on this for a couple of months now and we are looking at all the areas that we were asked to, including recruitment, training and medical care for volunteers, adjusting volunteer placement reflect U.S. priorities, coordination with different institutions, lowering our early termination rates, strengthening management and independent evaluation and oversight, and strengthening our third-goal activities. So, we have people working on each one of those components.

And I think from the early indications, number one, we are going to come up with some very hardhitting recommendations that I think will please the Committee in terms of the depth and the scope of what we are going to look at. We are going to be responsive to the concerns that were raised by the Chairwoman and also by yourself, Ranking Member Granger, in terms of management structure. And we are going to deliver a good assessment by the end of June.

Ms. GRANGER. Thank you.

Mrs. LOWEY. I think what we will best do is adjourn and we will try and get through these three votes as quickly as possible and then come back. And I thank you, again, for appearing before us. We shall return as soon as we can get back.

[Recess.]

Mrs. LOWEY. Thank you for waiting for us, the hearing will come to order.

Mr. WILLIAMS. Thank you, Madam Chairwoman.

Mrs. LOWEY. I would like to ask you about the coordination with other U.S. government agencies. We know, the Secretary and I have been talking about coordination wherever we travel because we find that everyone operates in their own stovepipe of excellence. So, I am really encouraged by steps the administration is taking through the global health food security initiatives to streamline programs. Peace Corps global presence sectoral breadth in agriculture, health, and education programmatic model make it a very natural complement to the U.S. government agencies working internationally.

If you can share with us whether there is a formal process for communicating or standard sharing of information and best practices. How do you coordinate with other agencies?

Mr. WILLIAMS. Thank you, Madam Chairwoman. First of all, I share your interest and support for coordination. It is very, very important. And Peace Corps, for example, had a longstanding partnership with USAID. USAID provides a small amount of grant funds in just about every AID mission around the world to support small scale grant projects of Peace Corps volunteers.

But more broadly, we, for example, participate in the Secretary's Quadrennial Diplomacy and Development Review (QDDR) process. We have a representative there. We also participate in the overall

NSC policy on development framework and it is an ongoing process and it is being chaired by the NSC. So, we certainly are we have a seat at the table and we play a role there.

We also are seeking to have a broader number of partnerships with other federal agencies. For example, we are looking to work with USDA. Secretary Clinton has announced, of course, her new signature initiative food security and we want to play a role in that. As you know, historically, Peace Corps always had a major role in the agriculture sector and I think one of the things that we have not been able to do for many, many years now because of lack of funding has been to have a vigorous, robust involvement in the agriculture sector. I would like to do that. I would like to have more engagement with the land grant universities, which back in the 1960s really were the backbone of Peace Corps involvement of the training faculty members and involvement in the agriculture sector. So, I think we are going to expand our partnership with the USDA.

We also are going to work closely with PEPFAR. We have had conversations with Ambassador Goolsby about things we can do. We already have a number of volunteers that work in the PEPFAR area. For example, in Africa, no matter what a volunteer's primary project is, their secondary project is probably working in HIV/AIDS, awareness and prevention at the community level.

I had an interesting meeting the other day with the administrator of NASA, as a matter of fact, and we are looking for ways to work with NASA, both in terms of countries where they have international programs, where Peace Corps has programs, and also in terms of our third goal of bringing things back home, working in schools across the United States with NASA, with Peace Corps, in this particular area.

And the agency that I plan to reach out and develop partnerships with would be The Centers for Disease Control (CDC). They, of course, are very active. As you know, they have a growing presence in Africa and we are in Africa and we can really be helpful working with them at the grassroots level.

So, overall, I think it is important. I want to do everything I can to support these kinds of partnerships. I think this is urgent.

Mrs. LOWEY. Now, you mentioned food security and we know how critical that is and the administration has really ramped up that program. Tell us a little about what Peace Corps volunteers are doing in that regard. Give me some examples and how they can be most supportive.

Mr. WILLIAMS. Peace Corps volunteers have been working, for example, one of the things that is important in schools in Africa, as you know, the children often come very hungry to school. They have very little food. And so one of the things that has been very important at the community level is Peace Corps involvement in school gardens, especially trying to help them grow gardens in areas that—in soils that you would not expect gardens to be able to grow. And so, we have been working very hard to support that initiative.

The other thing is working with farmers at the grassroots level in terms of trying new seed trials, trying to improve the overall yield of the harvest. There are all kinds of opportunities, I think,

in Africa and in Asia for Peace Corps to be involved at the grass-roots level in food security. Same things in terms of water and sanitation.

Mrs. LOWEY. My dream has always been communities of learning, where you have the school as the center and we have the garden and water and training for the families, so that you can really have a coordinated approach. Perhaps one day we will have some good examples of that.

Mr. WILLIAMS. That is a great development model, without a doubt. I agree.

Mrs. LOWEY. Now, Ms. Lee was here, but I guess we lost some people along the way, Mr. Kirk, but we have Mr. Israel.

Mr. ISRAEL. I will do the best I can. Director, thank you for being here. Last year's State Foreign Ops bill included House language that I inserted urging the Corps to find ways to channel the efforts of its volunteers to increase access to remote energy sources, including solar energy options. I am quoting. It goes on to say the Peace Corps Director shall report to Congress in the fiscal year 2011 hearing on these efforts. We are at the fiscal year 2011 hearing and I am looking forward to hearing about what you are doing, in order to promote solar and other renewable energy efforts.

Mr. WILLIAMS. Thank you, Congressman. And I must admit that that is one area that I have not looked at in my first six months, but I certainly will do so. I believe that is important. One of the things that I experienced when I was a foreign service officer in the Caribbean is that many of the Caribbean islands, they use solar energy almost exclusively to heat water. And this is very simple, very low cost. It seems to me that Peace Corps should be involved in renewable energy and I would like to follow-up on the recommendations in which you put in to the legislation. I will take a careful look at it. But, I have to admit, I have not looked at that at this point in time, but I will certainly follow up and do so.

Mr. ISRAEL. I appreciate your candor and I understand that you have only been on the job for six months. I am surprised that your staff, when you took the job, did not sit down with you and say here is what the United States Congress is requiring you to do. You are going to a hearing, expect this question, since it was actually enshrined in the law.

Mr. WILLIAMS. I understand, Congressman, and I will certainly rectify that.

[The information follows:]

THE DIRECTOR OF THE PEACE CORPS
WASHINGTON, D.C.

March 31, 2010

The Honorable Steve Israel
U.S. House of Representatives
2457 Rayburn House Office Building
Washington, DC 20515

Dear Representative Israel:

During the course of my testimony before the Subcommittee on State, Foreign Operations and Related Programs in support of the Peace Corps' fiscal year 2011 budget request, you inquired about agency efforts to promote solar and other renewable energy. I share your interest in finding ways to channel the efforts of Peace Corps Volunteers to help increase access to renewable energy sources, including solar-energy based options, and would like to expand upon my testimony by providing you with information on several things the Peace Corps is doing in this important area. I am delighted to provide you with this information and, if you wish, to meet with you to discuss Volunteers' efforts in promoting renewable energy.

Throughout our history, the Peace Corps has adapted and responded to the issues of the times. Peace Corps priorities should reflect current global realities and the development priorities of our host countries. In FY 2011, Peace Corps growth will continue to focus on sectors such as education, food security, health and HIV/AIDS, environment, and renewable energy. Environmental work has been a critical programmatic sector for Peace Corps Volunteers for several years, and, in fact, 14 percent of our Volunteers work on environmental projects as their primary assignment. Additionally countless other Volunteers, regardless of their primary sector assignment, incorporate environmental education into their secondary project activities.

Volunteers are engaged in a wide range of activities that raise awareness about environmental issues, promote the conservation and sustainable use of natural resources, and help communities both mitigate and adapt to the effects of climate change. While an increasing number of Volunteers have experience in the use of appropriate technologies for environmental conservation, in light of mounting global challenges, the Peace Corps is seeking to enhance the capacity of its Volunteers and their local counterparts to address energy and climate problems. There is growing potential for Volunteers to work with rural communities to promote energy-efficient practices and alternative energy technologies, including, but not limited to: fuel efficient stoves and biodigestors, solar energy (photovoltaics and water heating), mini-hydro, small wind turbines, and behavior change related to energy conservation, climate mitigation, and climate adaptation.

The Honorable Steve Israel
 March 31, 2010
 Page 2

In the area of solar-related activities by Peace Corps Volunteers, there are Volunteer projects in several countries, and I would draw your attention to an article that appeared in the January/February 2009 issue of *Solar Today* highlighting the work of a Peace Corps Volunteer in Cape Verde who planned and oversaw the building of solar desalination stills. A copy of the article is enclosed along with a sheet listing other solar energy projects undertaken by Volunteers.

At the Fifth Summit of the Americas in April 2009 in Port of Spain, Trinidad and Tobago, President Obama invited all countries in the Western Hemisphere to join the Energy and Climate Partnership of the Americas (ECPA) to promote collaboration on renewable energy, energy efficiency, cleaner fossil fuels, energy poverty, and infrastructure.

The Peace Corps quickly identified ECPA as a vehicle through which Peace Corps Volunteers could play a meaningful role. We are currently working on an interagency agreement with the Department of State/Bureau of Western Hemisphere Affairs. This partnership is an effort to address energy poverty and climate change issues in the Caribbean and Central and South America by bringing ECPA down to the grassroots level, so that local organizations, businesses, families, and individuals can take part in the hemisphere-wide partnership. The Peace Corps will directly engage local communities to address energy poverty throughout the Americas by increasing access to and use of environmentally-friendly energy technologies, and educating communities on climate change, energy conservation, climate mitigation, and adaptation. These efforts will result in increased access to energy in off-grid communities, reduced carbon emissions, improved health, and income generation opportunities for individuals and small businesses.

The three main goals of this effort are:

- Peace Corps Volunteers will enhance availability of small businesses and microfinancing to support communities' abilities to implement, access, and maintain energy efficiency and renewable energy technologies.
- Peace Corps Volunteers will increase municipal, school, and communities' awareness and knowledge of climate change, natural resources management, energy efficiency and renewable energy technologies, as well as mitigation and adaptation to climate change.
- Peace Corps Volunteers will support community members in the planning and implementation of energy efficiency and renewable energy technology projects or projects that mitigate or adapt to the effects of climate change.

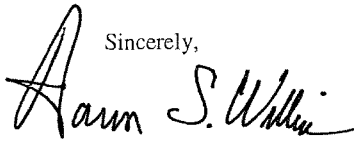
As we move into the implementation phase of this endeavor in the Caribbean and Central and South America, I will share with you our successes in this undertaking.

The Honorable Steve Israel
March 31, 2010
Page 3

The Peace Corps is also adopting innovative ways to support energy efficiency, resource conservation, and environmental stewardship across the agency. For instance, the Peace Corps Green Team at agency headquarters has instituted several changes, including mandatory recycling at headquarters and efforts to improve energy use and sustainability. Our post in Mali will begin using biodiesel fuel for its vehicles. The biodiesel is made from oils extracted from the nuts of the Jatropha plant. The Jatropha is a locally grown plant that produces oil that is locally processed and sold. This change has both environmental as well as economic benefits for the host country.

In an effort to 'green' overseas posts, the Peace Corps is planning a pilot program to conduct comprehensive energy audits. These audits, which we anticipate being undertaken by a returned Peace Corps Volunteer, will consist of a comprehensive examination of the consumption, greenhouse gas contribution, and costs associated with our overseas operations. These audits will assist the agency in reducing costs and becoming more energy efficient.

I hope this information gives you a greater understanding of the efforts underway at the Peace Corps to help increase access to renewable energy sources and to be more environmentally sensitive in our operations. Should you have any additional questions regarding the agency's work in this area, please have a member of your staff contact Suzie Carroll, acting director of the Office of Congressional Relations, at (202) 692-2128.

Sincerely,

Aaron S. Williams
Director

Enclosures

new energy for and about students

Cape Verde Students Build Solar Desalination Stills

The Cape Verde Islands in the tropical Atlantic get an average 68 mm (3 inches) of rain annually. The deep wells are now contaminated with brine, so fresh water for drinking, cooking, bathing and crop irrigation now comes from expensive oil-fired desalination plants.

Happily, the islands enjoy about 3,000 hours of sunlight annually. The nation is an ideal site for a solar desalination project.

"If everyone had one of these, we wouldn't have to spend money for water."

In 2007, Peace Corps volunteer Nicholas Hanson, working with a team of civil construction students at the Grau Duque Henri Technical School in Assomada, built a small concrete still for about \$210. It produced just 1.75 liters per day of fresh water. A second version, with a 1-square-meter collector box and a 0.7-square-meter preheater, went into operation in July 2007, and produced 2.5 liters of fresh water daily. It cost \$214. Now the group, aided by Peace Corps volunteer Brian Newhouse, has designed an improved model with a smoother-flowing preheater design and a seven-stage evaporator. Materials — concrete, sheet metal, stucco, paint, caulk, glass, plastic tubing and some wood for concrete forms — will cost \$275.

The goal: a design that can be replicated by households throughout the islands. All they'll need to do is throw a bucket or two of seawater into the still each day. As one student said, "If everyone had one of these, we wouldn't have to spend money for water."

The solar still team is eager to hear suggestions and comments from solar energy experts. View their plans and a video of prototype construction at www.peacecorps.org/cv/solar-project. Please send suggestions and comments to nfhanson@gmail.com and bri.newhouse@gmail.com. — BRIAN NEWHOUSE

Peace Corps volunteer Nicholas Hanson and his students prepare a freshly cast concrete solar still tub for its coat of stucco.



Building the Clean Technology Industry Because the Future is Now



Supporting Companies Manufacturing Renewable Energy, Clean and Energy-Efficiency Products in New Jersey

The New Jersey Economic Development Authority (EDA) manages the Edison Innovation Fund, a group of financial incentive vehicles brought together to help life sciences, technology and biotechnology companies thrive. A new addition to this group is the Edison Innovation Clean Energy Manufacturing Fund, which supports the commercialization and development of Class 1 renewable energy and energy efficiency systems, products and technologies.

Meeting Your Financial Needs is Just the Beginning

Through the Edison Innovation Clean Energy Manufacturing Fund, New Jersey clean technology manufacturers can receive funding under two separate components: project assessment and design, and project construction and operation. In total, qualified businesses may be eligible to receive up to \$3.3 million in grants and interest-free loans.

Grants for Project Assessment and Design

Up to \$300,000 is available as a grant to assist with the manufacturing site identification and procurement, design, and permits. Twenty percent of the grant is available as seed money.

Zero-Interest Loans for Project Construction and Operation

Up to \$3 million is available as a zero-interest loan to support site improvements, equipment procurement, and facility construction and completion, with an incentive to convert up to one-third of the loan into a performance grant.

To learn more about the Edison Innovation Clean Energy Manufacturing Fund, visit www.njeda.com/CEMF or contact us directly.



609-777-4898

www.njeda.com

For more information about doing business in New Jersey visit www.NewJerseyBusiness.gov or call 856-534-7788

SOLARTD1010109-020109

SOLAR ENERGY USE BY PEACE CORPS VOLUNTEERS FISCAL YEAR 2009

**"Solar energy" encompasses the use of solar technologies for water disinfection, water desalinization, food drying and cooking and electricity.*

Moldova – Season-extending greenhouses are an economic success for farmers investing in technology. The optimum greenhouse that exemplifies environmental cleanliness, is profitable and affordable is the **passive solar greenhouse using water batteries**. Two water battery greenhouses were constructed with partial funding from the Peace Corps Partnership Program. These greenhouses were the first in the country to harvest late spring cucumbers and early summer tomatoes. The simple technology heats crops for season extension and winter growth of cold resistant varieties. *(Energy)*

Dominican Republic – A solar hot water heating system was designed and installed in an eco-lodge and partly funded by a USAID/Dominican Sustainable Tourism Alliance grant. A two-page article in the Dominican Republic's most widely circulated newspaper led to the project being presented at an Earth Day event in Puerto Rico sponsored by American Airlines. The original community is now working to mobilize resources to install **solar-powered computer lab** in the two-room schoolhouse in the village. *(Energy)*

Cape Verde – A team of civil construction students and a Volunteer built a small **concrete solar still** (for \$210) that produced 1.75 liters per day of fresh water. A second still (at \$214) produced 2.5 liters per day of fresh water. A year later, a second Volunteer helped design an improved still with a smoother flowing pre-heater design and a seven-stage evaporator (for \$275) that can provide a household their daily drinking water. The goal is to replicate the design by households throughout the islands...all they would need to do is throw a bucket or two of seawater in the still each day and have potable water. *(Desalinization)*

Africa	Uganda	Honduras
Cape Verde	Zambia	Mexico
Ghana	EMA	Panama
Swaziland	Moldova	Paraguay
Tanzania	IAP	Peru
Togo	Dominican Republic	Vanuatu

Mr. ISRAEL. Thank you. I appreciate it. I yield back. Thank you.

Mrs. LOWEY. Ms. Granger.

Ms. GRANGER. Yes.

Mrs. LOWEY. Maybe we should go to Ms. Lee, since she did not ask a question yet. Ms. Lee.

Ms. LEE. Thank you, very much. Good to see you again, Mr. Williams. I am glad you are here, doing a great job, and just want to see what more we can do to help. The Peace Corps, of course, is one of my real, I guess, organizations that I always want to see more money and more money and more money because, right, Madam Chair, because you do so much with so little. And truly, Peace Corps volunteers are our ambassadors and every time I have a chance to go abroad, I always try to find Peace Corps volunteers and look at the projects and see how they are doing. I am especially excited and interested in people who have retired and returning to the Peace Corps, you know, Peace Corps volunteers who are now retirees and how they work where they live and the type of real contributions that they make. So, it is really an amazing moment, I think, for the Peace Corps.

I wanted to ask, and I know you cannot endorse this, but we talked about this a little bit or support legislation at this point, but I hope you look at my bill, H.R. 336. It would actually issue a semi-postal postage stamp in honor of the extraordinary work of the Peace Corps. It would sell at a slightly higher rate than the standard 44 cents, but all of the additional revenue would benefit the Peace Corps. And I have been working on this bill for probably 10 years. I want to have a Peace Corps stamp. And I understand the politics of all of this, but I want to keep pushing for that.

But, I want to find out with regard to your resource limitations. How many countries without a Peace Corps presence are currently requesting volunteers, if any, and what percentage of countries in which the Peace Corps operates would you estimate that are under resourced, whether in terms of the sheer number of volunteers or the technical capacity of volunteers or whatever? And how, finally, is your recruitment, especially with minority serving institutions? We always wanted to see more diverse Peace Corps. I have done a lot of Peace Corps recruiting in my own district under a previous administration to try to get more people of color involved in the Peace Corps.

Mr. WILLIAMS. Thank you, very much, Congresswoman for those series of questions. First of all, thank you for your hard work in trying to promote a Peace Corps stamp. That is wonderful. I am happy to hear that.

In terms of countries asking for Peace Corps volunteers, one of the things that has struck me since I have been on the job for the last six months is that not a week goes by when one of our U.S. ambassadors to a country or one of the host country ambassador comes to visit me and says either start a Peace Corps program in our country, or we want to expand Peace Corps in our country. So, there is a long list of countries that are interested in having us either expand or reenter their countries.

The good news is that this year, we have already gone back into two countries, Sierra Leone, which was a historic Kennedy-Shriver era country. This week, volunteers arrived in Indonesia. And so, we

are delighted to have that. Indonesia, of course, is a very important country. It is the most populous Muslim country in the world. It is another historic country where we were involved. So, we have announced those two. We have a couple of other countries that we are looking at for this year. So, we intend to be aggressive about moving into new countries.

In terms of volunteer levels, as we build a strong Peace Corps with strong management systems, as we learn from the assessment that we are engaging right now, we are going to look for ways to build up our volunteer levels. In terms of the countries that I have visited, for example, after I was sworn in, I went to the Dominican Republic, Nicaragua, South Africa, and Thailand, those countries have long historic ties with the Peace Corps. We can grow our programs in each of those countries. And I feel confident that in 90 percent of the countries where we serve now, we can do that. And so, we have some very aggressive plans for growing.

Ms. LEE. Madam Chair, may I just follow-up with that and just ask, you say Sierra Leone and Indonesia, we just . . .

Mr. WILLIAMS. We have signed agreements and we have volunteers that have just arrived in Indonesia this week. In Sierra Leone, volunteers will arrive in June.

Ms. LEE. Do you have a waiting list of countries that make these calls and want Peace Corps volunteers that we are unable to fulfill, in terms of

Mr. WILLIAMS. I would say there is a healthy list of countries that have called on us and are ready and willing for us to move forward, if we had additional resources.

Ms. LEE. Do you have a list of those countries? Do we know how to kind of focus on which countries they are?

Mr. WILLIAMS. Well, typically, when we are engaged in negotiations with countries, we do not mention that in public. But, I would be happy to give you a briefing on that.

Ms. LEE. Okay. I would like to know just kind of which countries really want us.

Mr. WILLIAMS. Sure. I would be happy to do that.

Ms. LEE. Okay, thank you. Thank you, Madam Chair.

Mr. WILLIAMS. Thank you.

Mrs. LOWEY. Thank you. Mr. Kirk.

Mr. KIRK. Who introduced the Congress and this committee to the 10,000 volunteer goal back during President Reagan's administration. And I am very happy that we are now approaching that goal once again.

I looked over the list of countries where we are at and offline we had a discussion and I want to just reprise that briefly. I think the Peace Corps of 20 years ago is very different than the Peace Corps today because 15 percent of your volunteers are older, far more experienced, and far more capable and especially for those men and women, who are more mature and have agricultural capabilities.

You have, I believe, a unique role to play in Afghanistan. Safety and security is one of the premier values of the Peace Corps and putting a 22 year old in a difficult environment like this is not wise. But a 40 or 50 year old, who understands what they are getting into, but is patriotic and wants to help out could provide a critical level of expertise to a PRT and here in the Congress, we would

all absolutely sing your praises and help your budget, if you were able to do this. So, I wonder if I could ask, would you consider mature, capable, especially agricultural experts, maybe to assist a PRT in Afghanistan, as part of the Peace Corps mission?

Mr. WILLIAMS. Thank you, Congressman, and good to see you again. First of all, Afghanistan was a historic Peace Corps country and one of the things that I found is that there is a strong affinity group that continues to ask us about whether or not Peace Corps will ever return to Afghanistan. So, I would like to take a look at whether or not we can consider that. Because, as you said, it is not a place that you want to send a 22 year old to, because first and foremost in our minds is the security of our volunteers. So, we will take a look at it.

Mr. KIRK. Thank you. I would like to work with you, General Flynn, General McCrystal. It would be a big feather in your cap and I think this Committee would really like to see how the Peace Corps was bringing peace even to the most difficult environments, with some of your more capable volunteers. Madam Chairman, thank you.

Mrs. LOWEY. Ms. Granger, do you have any questions?

Ms. GRANGER. Just one. I mentioned earlier about the 12 percent increase. I did not really get an answer on what you are basing that when you have not finished your review. With regard to the Overseas Programing and Training Support and the Office of Strategic Information, Research, and Planning, you are only asking for a three and a six percent increase. With the number of volunteers that you are saying that you want to add, which is very significant, I certainly want to properly invest in training and a program evaluation. Would you explain that increase in funding and how you balance that?

Mr. WILLIAMS. I think that in recent years, Peace Corps has not been able to invest in training of staff and training of volunteers to the extent that one would expect in the 21st century. So one of the things that I would like to see us do is to bolster our staff. I think you cannot grow and put more volunteers in the field if you do not have, number one, headquarters staff to support the growth and also staff in the field. And the other thing that makes Peace Corps somewhat unique and I think and ties directly to your question, Peace Corps relies on host country professionals to a larger extent than any of our foreign affairs agencies. And I think we have not been able to invest in their training and they represent the continuity of most Peace Corps operations. So, we need to bolster training for our host country nationals. We need to expand our staff in the field and in headquarters to support our growth. And we want to make sure that we expand training. And that is across the board, in terms of field staff, country directors, and also volunteers, because volunteers will gain the kind of skill sets they need to be more effective on the ground.

Ms. GRANGER. So, you think that three percent is all you need to do that. Is that right?

Mr. WILLIAMS. At this point in time, it looks like that would do the trick for us. But one of the things that we are going to learn from the assessment, I hope, is whether or not we need to redirect some investment in that area.

Ms. GRANGER. Okay. Thank you.

Mr. WILLIAMS. Thank you.

Mrs. LOWEY. Please excuse the attendance, but this is a crazy day. No indication of our passion and respect for the Peace Corps. Perhaps I will close with asking you about what you are doing in Haiti. I know you have been involved and are currently involved. Let me ask the question, what are you currently doing with the response to the earthquake in Haiti? I understand the Peace Corps now does not have a mission in Haiti. Have discussions taken place to consider the Peace Corps reentering into Haiti? How would Peace Corps propose to support volunteers in the field? Is this an opportunity to try a new model of increased partnering and burden sharing with NGOs? Does the earthquake and reconstruction efforts in Haiti affect the Peace Corps plan for the fiscal year 2011 budget? Please tell us, is the Peace Corps there? What are they doing there and what could they do there?

Mr. WILLIAMS. Well, this is a subject, which is very near and dear to my heart for a surprising reason, Madam Chairwoman. I served as a foreign service officer for almost five years in Haiti, as did my Chief of Staff. Stacey Rhodes is here with me today. And we also were instrumental in convincing Peace Corps to establish a Peace Corps Program in Haiti, at the time that we served there, in the early 1980s. So, this is an important topic for me.

I can tell you that before the earthquake, we were talking within the administration about Peace Corps considering going back into Haiti. I think the earthquake has made this even more urgent. Because we were not in Haiti, we were not one of the first responders and Peace Corps typically is not unless we are already in the country. However, we did send four Peace Corps staff members to work in the interagency relief effort, including a Haitian-American doctor, who is also a public health specialist and speaks French and Haitian Creole. So, we did contribute.

We now have, as of last week, two Peace Corps Response Volunteers, the first of a larger number we hope to put into Haiti, working with NGOs, in partnership, as a matter of fact, because I think that is the most effective way right now for us to work in Haiti, is through partnerships.

So, I certainly would like to entertain conversations with the government to look for ways to move forward. I hope that they will be forthcoming and we would like to be aggressive.

Mrs. LOWEY. Thank you. And I see Ms. Lee returns. So, you may have the last question.

Ms. LEE. Well, let me just go back to the Peace Corps volunteers, the retired Peace Corps volunteers. Do you have a percentage or numbers and where they are posted, to get a sense of how they are doing and what they are doing, where they are?

Mr. WILLIAMS. In terms of the older volunteers?

Ms. LEE. Yes.

Mr. WILLIAMS. The more mature volunteers? The experienced volunteers?

Ms. LEE. Yes, the experienced volunteers, who share their knowledge, experience, and everything, their life's work—

Mr. WILLIAMS. Exactly.

Ms. LEE [continuing]. With this important organization.

Mr. WILLIAMS. One thing I can say about the more experienced volunteers, every country director that I have talked to, and I now have met all 75 in the last six months, they really like to have these kinds of volunteers serve in their country for all the obvious reasons that you know so well. They are experienced. They serve as an anchor for some of the younger volunteers. They bring a special expertise. They made a very hard decision to decide to join Peace Corps at this stage of their life and so they are very dedicated.

So, we certainly want to encourage more experienced volunteers, 50 plus to consider joining the Peace Corps because they play an important role. They represent a very important part of what we do. And I will be happy to follow-up and give you a breakdown of where we have our largest numbers of these experienced volunteers. One of the things that you will find is that they tend to be clustered in countries where we have the best possible medical care available for them.

[The information follows:]

PLACEMENT OF OLDER PEACE CORPS VOLUNTEERS

Older Americans contribute tremendously to Peace Corps programs all over the globe. No single group has more to offer in terms of experience, maturity, and demonstrated ability. Many older Volunteers find their age to be an asset while serving overseas and because there's no upper age limit to Peace Corps service, it's never too late.

Placement of all Peace Corps Volunteers is based on matching the skills of a Volunteer with the needs of the host country as well as an assessment of a Volunteer's medical needs and the appropriate services available in that country.

The medical evaluation process is the same regardless of an applicant's age. Because of the nature of countries where Peace Corps serves and the scope of the medical services available in those countries, all applicants undergo a comprehensive medical and dental assessment based on their health history and examinations to determine if they are medically qualified to serve in the Peace Corps. Each applicant is assessed individually to determine if Peace Corps' medical eligibility standards are met. The Peace Corps Office of Medical Services screening unit works with an applicant to ensure that pre-existing conditions are considered and that a Peace Corps country is capable of providing the necessary services and support to accommodate a condition.

At the close of FY 2009, 6.6 percent of all Peace Corps Volunteers were over the age of 50. The attached chart lists the top five posts in each of the Peace Corps' geographic regions: Africa; Europe, Mediterranean, and Asia (EMA), and Inter-America and Pacific (IAP) based on the number of Volunteers at post over the age of 50 in FY 2009.

Top Five 50+ Posts by Region in FY 2009

Region	Post	Number of Volunteers that were 50+	Total Number of Volunteers in Country	Percentage of Total Volunteers that were 50+
Africa	Botswana	29	112	25.9%
Africa	Ghana	18	168	10.7%
Africa	South Africa	16	123	13.0%
Africa	Tanzania	13	171	7.6%
Africa	Uganda	13	154	8.4%
EMA	Ukraine	41	339	12.1%
EMA	Azerbaijan	22	118	18.6%
EMA	Morocco	18	260	6.9%
EMA	China	15	110	13.6%
EMA	Macedonia	15	102	14.7%
IAP	Mexico	26	54	48.1%
IAP	Eastern Caribbean	17	73	23.3%
IAP	Jamaica	14	72	19.4%
IAP	Belize	12	75	16.0%
IAP	Vanuatu	12	94	12.8%

Ms. LEE. Yes. That is what I wanted to ask you and look at because I think as we try to recruit more retirees, we may want to look at more support for them, such as the medical support and whatever else people would need, pharmacies, you know, whatever.

Mr. WILLIAMS. I think that would be a good investment.

Ms. LEE. Yes, I think so. So, I would look at that——

Mr. WILLIAMS. Okay.

Ms. LEE [continuing]. And work with you on it. Thank you, very much.

Mr. WILLIAMS. Thank you.

Mrs. LOWEY. Thank you. I may change my mind and close on the security issue because I think it is so important. And we know the most important responsibility the Peace Corps has is to ensure the safety of its volunteers. When volunteers are not protected, this has been tragically highlighted by the 2009 murder of Catherine Puzey in Benin. Unfortunately, as we know, this was not an isolated case. Peace Corps volunteers have been victims of crimes, including robbery, rape, physical assault, physical intimidation. In fact, I could not help but think as we were in Ghana a couple of years now you were with us and I remember this beautiful little blond hitchhiking all through to meet us for dinner. And I kept thinking, gutsy, gutsy, young woman. But, we know that the murder of Catherine Puzey is not an isolated case.

And we understand that there are inherent risk in Peace Corps services. I cannot stress enough the importance of keeping volunteers as safe as possible in the communities they serve. So, if you can share with us what steps are being taken to ensure the safety of Peace Corps volunteers, what mechanisms are in place to ensure that Peace Corps staff in country are vigilant and promote appropriate safety measures. And you could also address the organizational changes, in terms of recruitment of local volunteers for the local paid people for the Peace Corps, we would be most appreciative. Thank you.

Mr. WILLIAMS. Thank you, Madam Chairwoman. As you said, volunteer safety and security is our highest priority. There is no doubt about it. And you have to admire the people who serve in the Peace Corps in sort of isolated communities around the world, for their courage, determination. And the fact is that one of the most important parts of their security is the fact that they become parts of the community. They are seen as being part of the community and they are supported.

The Office of the Inspector General is in the process of finalizing a report and audit of the Office of Safety and Security. And I intend to carefully consider all of the recommendations that come out of this IG report, because it is a very, very important issue for me. That is one of my top priorities. And so, you can rest assured that once we get that report, we will sit down with the Committee and discuss it and make sure we take the steps and follow-up on the recommendations that are being made regarding that.

In terms of in-country security, we have three levels of security in terms of volunteers. First of all, we have regional security officers that serve in about 10 countries around the world. Then in every country, we also have a dedicated safety and security officer.

And then, of course, we have a headquarter staff of safety and security. So, we have three different levels of that.

And we also have a very good system. One of the things that has been really one of the great improvements, I think, in Peace Corps, different from my generation, is that now volunteers, almost 90 percent of our volunteers have cell phones. So, they are able to stay in contact with their families. We are able to stay in touch with them. It is much easier now. We have emergency plans in place in case we need to evacuate volunteers.

So, Peace Corps is paying a lot of attention to this and we intend to continue to do that. And I am looking forward to reviewing the IG report to get more information about this.

Your third point regarding local staff, I think one of the things that is important is that we need to make sure that all local staff prior to hiring are thoroughly vetted, the same way one would expect in terms of USAID or the State Department, when they hire foreign service nationals. And that is going to be one of our priorities.

Mrs. LOWEY. Thank you. We were going to close, but we are joined by our very distinguished member, Mr. Schiff.

Ms. SCHIFF. Thank you.

Mrs. LOWEY. Do you have a question?

Ms. SCHIFF. Thank you, Madam Chair, and I will be quick. Mr. Williams, nice to see you again. I just had a couple of questions. There are some that believe the Peace Corps should recruit more volunteers who specialize in certain areas, in order to meet the needs of the countries where the Peace Corps operates. Others contend this would undermine the original mission of the Peace Corps and the ethos of the Peace Corps, as both a development assistance agency, as well as, say, vital public diplomacy component. How do you see this divergence of opinion? Do you anticipate recruiting people with more specialized skills? Those are what I wanted to ask and apologize if you have addressed. And if you have, I will just get the cliff notes from my colleagues later. But, I am curious about the response component that began in the mid-1990s and how that is going and whether you have adequate funding in order to move forward with that important initiative.

Mr. WILLIAMS. Thank you, Congressman, good to see you again, also. Thank you for joining us. First of all, specialized skills, I think there are certain areas where Peace Corps certainly needs to recruit people with specialized skills. And many of our 50 plus volunteers come into the Peace Corps with those kinds of skills. For example, earlier, we were talking about the fact that we wanted to expand our involvement in Secretary Clinton's food security initiative. In order to do that, I think we are going to need to bring in volunteers who have additional skills in the agricultural sector. I want to also use as a bridge to develop stronger partnerships with the land grant universities around the country that used to be a really important player and partner with the Peace Corps during the Shriver era. And I think there are plenty of opportunities there. So, I think in terms of specialized skills, both in healthcare and agriculture, there is ample room to bring in people who have those kind of skills. So, we are going to continue to recruit those types of individuals.

On your second point regarding Peace Corps Response, I often joke around the office that if Peace Corps Response or what used to be called the Crisis Corps, if it did not exist, I would have to invent it because we need to have a rapid response corps within the Peace Corps to respond to the Haiti-like situations of the world. And so, we have used the crisis corps to go into a couple of new countries. For example, Sierra Leone, which we have announced we are going to go back into in June, we are going to use the Crisis Corps there—excuse me, Peace Corps Response Volunteers. So if we were to go back into Haiti, we would be using probably initially Peace Corps Response Volunteers. We have already line up about 100 Haitian Creole speakers who would love to go back into Haiti, former peace corps volunteers who have served over the years. So, the Crisis Corps, I think—I keep calling it the Crisis Corps—the Peace Corps Response Volunteers are important.

Ms. SCHIFF. And do you view the Response volunteers as kind of the vanguard for bringing in the regular Peace Corps later on—

Mr. WILLIAMS. I think so.

Ms. SCHIFF [continuing]. Or the situations where you have a Peace Corps presence already, but there is an emergency where you need to supplement it?

Mr. WILLIAMS. I think it depends on the country. For example, if you are going into a post-conflict situation like Sierra Leone or Liberia, I think a Peace Corps Response is the right way to go. And it also gives you a chance to learn the new lay of the land now that we have not been in the country for some time, to prepare the groundwork, start working with the ministries and other potential partners on the ground, and then prepare for a regular two year Peace Corps program. Yes, I think it is a very useful tool and it is part of our growth targets to increase Peace Corps Response.

Ms. SCHIFF. Thank you, Madam Chair.

Mrs. LOWEY. Thank you, again. We are most appreciative for your leadership. We look forward to seeing all of the many changes you are making in the field and we appreciate you coming before us. Thank you, Director Williams.

Mr. WILLIAMS. Thank you, so much, Madam Chairwoman, for all of your support of the Peace Corps. We know this is really something that you support. You believe in it. And we are going to do everything we can to make you proud of what we do in the 21st century. And I thank Congressman Schiff for joining us today and for your other colleagues. I really appreciate the chance to talk about the Peace Corps and our fiscal 2011 budget request.

Mrs. LOWEY. Thank you and the Committee on State, Foreign Operations, and Related Programs is adjourned. Thank you, very much.

**QUESTIONS FOR THE RECORD SUBMITTED
BY CHAIRWOMAN LOWEY
FOR THE PEACE CORPS HEARING
MARCH 18, 2010**

Interagency Coordination

- **In 2009, Peace Corps received \$22 million in funding for HIV/AIDS activities from PEPFAR. How has Peace Corps' relationship with PEPFAR worked in country?**

Today, one of the most serious worldwide threats to public health and development is the spread of HIV/AIDS. Peace Corps Volunteers provide hope and meaningful assistance to people affected by HIV/AIDS through work in public health education, health extension, and development with youth, communities, nongovernmental organizations, business advising, and information technology. Volunteers are uniquely suited to work in the field of HIV/AIDS because they are trained in the local language, live and work in the communities where they serve, and know how to share information in a culturally sensitive way. The tireless efforts and dedication of Volunteers have made the Peace Corps a key partner in the global response to the HIV/AIDS pandemic.

The President's Emergency Plan for AIDS Relief (PEPFAR) encompasses all resources and international activities of the U.S. government to respond to the global HIV/AIDS pandemic, including both U.S. bilateral programs and U.S. contributions to multilateral initiatives. PEPFAR funds are appropriated to the State Department and then transferred to the implementing agencies. Each post that receives PEPFAR funding has a coordinated USG interagency team made up of representatives from all relevant USG agencies working in the area of HIV/AIDS. The Peace Corps is part of this interagency team. Together with representatives of the other USG agencies, the Peace Corps participates in the creation of a 'one government' HIV/AIDS strategy, which takes its lead from the host country's strategy and complements the roles of other donors and organizational players working in that country.

The PEPFAR interagency team, including a representative from the Peace Corps, decides on annual funding levels for the various agencies based on the total PEPFAR funding that has been allocated to that country. In addition, the team produces a Country Operating Plan, which serves as the annual operating plan for all USG PEPFAR activities.

PEPFAR teams have generally appreciated the ability of Peace Corps Volunteers to reach populations at the grassroots level and at relatively low cost. In July 2008, Congress re-authorized PEPFAR for another five years (2009 – 2013) to expand the goals achieved in the first five years. The next phase of PEPFAR allows for the continuation of existing HIV/AIDS prevention, care and treatment programs with an emphasis on promoting sustainability and

accountability. This new emphasis has brought increased salience and significance to the Peace Corps' role in PEPFAR, as it is well aligned with the Peace Corps' traditional strengths and focus on sustainability.

- **To what extent is the Peace Corps program in each country coordinated with the development agenda of each Mission?**

The Peace Corps can best continue its mission to promote world peace and friendship, while ensuring the health, safety, and security of Peace Corps Volunteers who carry out that mission, by remaining appropriately separate from the day-to-day conduct of official U.S. foreign policy overseas. Such autonomy ensures Peace Corps' independence, ability to implement programmatic and operational priorities, cost effective management, and most importantly, Volunteer safety and security.

However, Peace Corps programs strive to reflect and address current global realities and the development priorities of the host country and the United States. Through partnerships and collaboration with other U.S. government agencies, the Peace Corps makes meaningful contributions to ongoing international development efforts. Although the Peace Corps must maintain a unique level of independence from the broader foreign policy community, this independence should not inhibit the Peace Corps from contributing to efforts to leverage development impact through collaboration.

The Office of Intergovernmental Affairs (IGA) was recently established at Peace Corps headquarters to support a comprehensive "whole of government" approach to development, both by enhancing existing relationships and cultivating new relationships with other federal agencies. Peace Corps Volunteers live and work at the grassroots level and are trained in the local language of their host community. By coordinating development strategies and project implementation where appropriate, the Peace Corps can utilize the resources and technical expertise of other US government agencies to provide greater development impact at the grassroots level.

Security

Over the last year, Peace Corps volunteers have been victims of crimes including robbery, rape, physical assault, physical intimidation, and murder. It is vital that Peace Corps volunteers feel safe in the communities they serve.

- **What steps are being taken to ensure the safety of Peace Corps volunteers?**

The health and safety of our Volunteers is the Peace Corps' highest priority. Because Peace Corps Volunteers serve worldwide, sometimes in very remote areas, health and safety risks are an inherent part of Peace Corps service. The agency devotes significant resources to provide Volunteers with the training, support, and information they need to stay healthy and safe.

Peace Corps staff and Volunteers work together to create a framework that maximizes, to the extent possible, Volunteers' well-being, enabling them to carry out their mission effectively. The Peace Corps incorporates safety and security information into all aspects of Volunteer recruitment, training, and service, and ensures that safety and security policies and training curricula are current. Through language, cross-cultural, and health and safety instruction, Volunteers learn about their new environment and are shown how to effectively cope with the many challenges they will face.

In the field, safety and security training and support is provided by regionally-based Peace Corps safety and security officers (PCSSOs) as well as safety and security coordinators at each Peace Corps post. In addition, PCSSOs advise posts on safety and security issues by conducting crisis management exercises, supporting Peace Corps country directors during critical situations, and providing front-line support in the event that a Volunteer has been the victim of a crime.

As I stated in my testimony, the Peace Corps' FY 2011 budget request directs additional resources to strengthen two of our key offices that support the health and safety of our Volunteers. Additionally, the Office of Inspector General is in the process of finalizing its report on an audit of the Office of Safety and Security. I intend to carefully consider the recommendations made by the Inspector General and take whatever steps are necessary to ensure the safety and security of all Volunteers.

- **What has the Agency done to ensure volunteers are protected when they report misconduct by Peace Corps employees?**

During training, Volunteers are provided information regarding reporting sensitive concerns to the Peace Corps' Office of Inspector General. The Peace Corps Volunteer Handbook states that, "Volunteers should promptly report to the IG any known or suspected criminal activity or other misconduct, fraud, waste, abuse, or mismanagement involving a Peace Corps employee, Volunteer, contractor, or consultant."

Peace Corps policy requires that any Peace Corps staff member receiving an allegation from a Volunteer or trainee must treat the information with the utmost discretion and confidentiality consistent with the appropriate handling of the allegation and applicable law, including, when appropriate referral to the Inspector General or other legal authorities. I have attached a copy of the Peace Corps policy related to handling allegations by Peace Corps Volunteers or trainees.

In addition to these measures, I am committed to working with you and your congressional colleagues to possibly expand additional protections and procedures designed to improve the safety of Peace Corps Volunteers and trainees.

IPS-09 – HANDLING OF VOLUNTEER/TRAINEE ALLEGATIONS

Date: March 27, 2009

Responsible Office: Office of the General Counsel

1.0 PURPOSE

The purpose of this Interim Policy Statement is to set out explicitly Peace Corps policies for handling allegations by a Volunteer or Trainee of misconduct, mismanagement, or violations of law or policy.

2.0 POLICIES

2.1 Volunteers/Trainees (V/Ts) must be informed that they should report to the Office of Inspector General (OIG) any activity which they reasonably believe constitutes a violation of federal law, rule, or regulation; mismanagement; serious misconduct; gross waste of funds; abuse of authority; or a substantial and specific danger to the public health and safety relating to the programs and operations of the Peace Corps. See MS 861. Such reports will be handled by the OIG as set forth in MS 861.

- 2.2**
- (a) V/Ts may also report such allegations to senior staff at post or to the appropriate Regional Director.
 - (b) Any Peace Corps staff member receiving an allegation from a V/T must treat the information with the utmost discretion and confidentiality consistent with appropriate handling of the allegation and applicable law, including where appropriate, referral to the OIG or other legal authorities.
 - (c) No Peace Corps staff person may retaliate in any manner against a V/T because the V/T reported an allegation under this subsection. Nothing in this IPS should be construed to exempt a V/T from the requirement to behave in accordance with MS 204 *Volunteer Conduct*.
 - (d) All allegations by V/Ts will be given serious consideration and review and will be handled and resolved or disposed of, as appropriate, by management and/or the OIG.
 - (e) Based upon the nature of the allegations and the totality of available facts, appropriate measures must be taken to ensure the V/T's safety.

3.0 EFFECTIVE DATE

The effective date is the date of issuance.

Returning volunteers

As you know, the greatest contributor to the success of the Peace Corps is the passion of its volunteers. This is not only evident in the work they do as volunteers but also through their zealous advocacy once they return. The best recruiting tool the Peace Corps has is the person to person interactions of returned volunteers. One issue that arises most often is the difficulty of returning volunteers to reintegrate. These issues range from difficulty finding employment to reestablish a residence.

- **Can you tell me what the Peace Corps is doing to improve the services provided to returning volunteers?**

Peace Corps Volunteers are given a readjustment allowance at the close of their service to facilitate their transition from Peace Corps service to the next stage of their lives. The Peace Corps readjustment allowance has remained the same for the last 11 years. Effective April 1, 2010, the readjustment allowance was increased to \$275 per month, an increase of \$50 per month. This increase means that Volunteers completing a full 27-month tour will receive \$7,425 to help in the readjustment period. The Peace Corps will continue to review the readjustment allowance and will consider future increases as agency budgetary resources allow.

- **Specifically, what efforts are being made to assist returning volunteers in finding employment and the results of those efforts?**

Fluency in foreign languages, international experience, and cross-cultural understanding are highly sought-after assets in today's global economy. The Peace Corps is strongly committed to helping returned Peace Corps Volunteers (RPCVs) transition back to the United States. Returned Volunteers have used their Peace Corps experience as the foundation for successful careers in a variety of areas, from government to business to education. Peace Corps staff members work directly with current Volunteers, returned Volunteers, and public and private sector leaders to develop career and transition support services for returned Volunteers including:

- **Close-of-Service Trainings:** Before the end of their Peace Corps service, Volunteers attend an in-country close of service conference. This conference encourages Volunteers to reflect upon and bring closure to their experience as a Peace Corps Volunteer. Volunteers receive information pertaining to employment and continuing education options such as Fellows/USA as well as information about how they can take part in third goal activities once they are back in the United States.
- **Fellows/USA:** The Peace Corps manages the Fellows/USA program which is celebrating its 25th anniversary in 2010. Fellows/USA graduate schools provide financial assistance to RPCVs enrolled in various advanced degree programs all across the country. At the same time, RPCVs commit to working in underserved local communities as they pursue their graduate degrees. Volunteers can participate in the Fellows/USA program at any

point after they finish their Peace Corps service. The Peace Corps has increased the number of Fellows/USA graduate schools from 38 in FY 2005 to 52 in FY 2010.

- Career Events: Three times a year, the Peace Corps organizes four-day RPCV career conferences in Washington D.C. which include career preparation workshops, targeted panel discussions, and job recruitment fairs which typically feature more than 30 employers. In FY 2009, more than 1,600 RPCVs participated in Peace Corps career events.
- Virtual Career Workshops: The Peace Corps also hosts several online career workshops each year for RPCVs around the world. These virtual workshops provide the same career guidance as is featured at the career conferences held in Washington, DC.
- Career Bulletins: The Peace Corps emails a semi-monthly career bulletin called *Hotline* to all recent RPCVs, which includes a feature article on successful career strategies as well as information about job openings all across the country. These career bulletins are also made available to RPCVs all around the world through the Peace Corps website.
- Federal Employment: The Peace Corps works closely with other federal departments and agencies to encourage the consideration of RPCVs for employment and to educate federal hiring managers about the benefits of the non-competitive eligibility status granted to returned Volunteers for one year following the close of their Peace Corps service.
- Mentoring: The Peace Corps works closely with the National Peace Corps Association to match returning Volunteers with RPCVs in their communities and in their fields of interest who can help them with their transition back to the United States.
- Additional Career Resources: The Peace Corps provides access to career self-assessment computer software to all RPCVs around the world. Additionally, the agency manages a career center in its Washington, DC regional recruiting office located in Rosslyn, VA which features career resources, career counseling opportunities, and computer access for returned Volunteers transitioning back to the United States. The Peace Corps' eight other regional recruiting offices, located across the United States, also provide office space and computer access to assist returned Volunteers.

Oversight-Personal Service Contractors

I understand that the Office of Management and Budget has asked agencies to develop a plan to save 7 percent of baseline contract spending by fiscal year 2011. According to the latest Peace Corps Inspector General's semiannual report, personal service contracts make up over 60 percent of overall contract expenditures.

- **Can you tell us what steps Peace Corps is undertaking to lower its contracting expenditures?**

As with most federal agencies, the Peace Corps uses both federal employees and private sector contractors to accomplish our mission. Many contractors provide vital expertise to the Peace Corps. Consistent with the spirit and intent of the White House contracting initiatives, the Peace Corps has been and is actively pursuing cost savings for the agency. The Peace Corps recently completed several major in-sourcing efforts that had previously been out-sourced including information technology services, training support services and voucher examining services. These efforts have saved the Peace Corps more than \$1.6 million. In addition, the agency is actively pursuing in-sourcing or consolidation of other major support service contracts for further savings and will participate in Federal Strategic Sourcing Initiative (FSSI) led by the General Services Administration (GSA) where appropriate.

- **Can you explain the large percentage of contract expenditures are personal service contracts?**

The Peace Corps employs both Americans and locally hired staff in a direct hire status. Directly hired staff are reported to the Office of Personnel Management as Full-Time Equivalent (FTE). The number of FTEs is controlled by the Office of Management and Budget (OMB) and the number of FTEs approved by OMB in the annual President's Budget is not sufficient to acquire the total staffing needed for the Peace Corps' overseas operational support to Peace Corps Volunteers. Personal Services Contractors (PSCs) do not count against the FTE ceiling.

Unlike most contracts, PSCs can perform service duties by direct supervision of directly hired employees. By law, Peace Corps' authority to contract with PSCs extends only to its overseas operations. The Peace Corps does not have the authority to contract for PSCs domestically. Some of the services which may be performed overseas under PSCs include: custodial, housekeeping, maintenance, transportation, and other commercial-type services requiring skilled or unskilled labor; and professional, sub-professional, and clerical services.

Recruitment Process

I have been told that the recruiting process is an arduous process. The average recruitment period takes anywhere from 12-18 months. These delays occur in all aspects of the recruiting process including the application process, medical clearance, and country selection.

- **What specific measures have you taken or do you plan to take to streamline the recruitment/selection process?**

The Peace Corps application process is designed to identify the best possible candidates to represent and serve their country as Peace Corps Volunteers. All applicants for service are evaluated individually to determine if they have the necessary skills and attributes to meet the selection and eligibility standards.

For many years, the Peace Corps has recognized the need for an improved way to manage the recruitment and placement of Americans applying to the Peace Corps. To reach targeted growth numbers and to ensure that the agency continues to identify the best possible candidates for Peace Corps service, several changes have been made or will be made in the near future to the recruitment and selection process. These changes include:

- Significant investments have been and will continue to be made in the development of a new Volunteer Delivery System (VDS) which encompasses the core business processes of the Peace Corps from recruitment and selection through deployment, training, support, and medical care. The VDS will modernize the way that the Peace Corps conducts business and is expected to significantly reduce the time it takes to move an applicant through the recruitment process. Recently, requests for proposal were made public for two components of the VDS system – the Volunteer Lifecycle Management System (VLMS) and the Volunteer Electronic Health System (VEHS).
 - The Volunteer Lifecycle Management System will provide new information technology infrastructure for relevant business processes related to recruitment and selection of applicants including a data driven placement process based upon the skills and personal characteristics of an applicant. This component of the VDS will also enable to Peace Corps improve interaction with Volunteers after they close their Peace Corps service resulting in improved third goal initiatives.
 - The Volunteer Electronic Health System provide new information technology infrastructure related to health care provided to Volunteers in the field during service as well as any necessary post-service support. The VEHS will include an electronic health record for all Volunteers, a clinical decision support system to standardize clinical care provided by Peace Corps Medical Officers, and a performance management system which will better measure the quality of care

provided to Volunteers and will also provide the agency with continuous data feedback to inform decisions related to the provision of health care to Volunteers.

- A new pilot program will be launched in an effort to streamline the applicant medical clearance process. The Peace Corps will contract with select medical providers who are well versed in Peace Corps medical clearance process and the physical demands of Peace Corps service. These medical providers will conduct the required physical exams for Peace Corps applicants at select locations throughout the United States. The Peace Corps intends to launch this pilot at our Washington, DC Regional Recruiting Office located in Rosslyn, VA in May 2010. The pilot will eventually be expanded to include the Chicago Regional Recruiting Office as well as the Dallas Regional Recruiting Office. The agency believes that by standardizing the medical evaluation process through the use of medical providers trained by the Peace Corps, the agency will gain a more accurate measure of an applicant's health and suitability for Peace Corps service and will reduce both the time and the cost of the medical clearance process for applicants by ensuring that all paperwork is submitted on a timely basis and eliminating follow-up visits to medical providers for additional information.
- A reorganization of the Peace Corps' Placement Unit from a country desk approach to a skills desk approach. The Placement Unit assesses an applicant for suitability for Peace Corps service following the medical clearance phase. In late 2009, the Placement Unit reorganized staff and responsibilities to focus on applicant skills rather than the geographic regions and country programs. This has resulted in better matches between applicants and available openings, better customer service due to more balanced workloads for staff, and better applicant file management by having specific staff responsible for specific duties in the placement process.
- Collaborative partnerships for strategic recruitment. Recently, the Peace Corps has signed agreements with City Year and National Association of Community Health Centers (NACHC) to help recruit the next generation of Peace Corps Volunteers. Through these agreements, participants in City Year and AmeriCorps volunteers working at NACHC will be encouraged to continue their service abroad by joining the Peace Corps. In addition, Returned Peace Corps Volunteers will be provided with information about how they can put the skills and experience gained through Peace Corps service to use with these organizations when they return to the United States. The Peace Corps anticipates these partnerships will help to increase the diversity of Peace Corps applicants as well as provide applicants with increased experience in the areas of health and youth development.

- **When can we expect streamlining efforts to be completed?**

The Peace Corps is constantly trying to improve the recruitment and selection process. The streamlining efforts mentioned above are in various stages of completion. The reorganization of the Placement Unit as well as the collaborative partnerships for strategic recruitment have already been implemented. The medical clearance pilot is expected to be launched in May 2010.

The request for proposals for the VLMS components of the VDS system was released on March 8, 2010 and submissions were due on March 31, 2010. The request for proposals for the VEHS component of the VDS was issued on March 24, 2010 and proposals are due by April 14, 2010. It is expected that these contracts will be awarded in June 2010 and that pilots of these new systems will be up and running by late summer 2010.

National Interests

There is growing opinion that the Peace Corps programs do not align with U.S. foreign policy interests. The concern is based on the view of some that the Peace Corps does not sufficiently take into account these interests when determining entry into a country and when developing its country programs.

- **What is the criteria used to determine country selection for Peace Corps entry?**

The Peace Corps' statutory mission, "to promote world peace and friendship," is, by definition, global in breadth. The agency seeks to fulfill this mission by maintaining a broad international presence and by providing as many opportunities as possible for Americans to help respond to chronic and emerging needs for assistance around the world.

In determining which countries to evaluate for potential entry or reentry, the Peace Corps evaluates several factors. New opportunities and requests, and changed international circumstances must be evaluated together with valued long-standing commitments and partnerships.

In keeping with its founding principles, the Peace Corps works only in those countries where it has been invited to serve by the host government. Generally, the Peace Corps requires that a formal request from the potential host government be sent to the Director of the Peace Corps as a serious expression of interest. This invitation serves as the basis for further steps in the entry/reentry process.

A threshold consideration for the Peace Corps' presence in any country, or area of a country, is whether an acceptable safe and secure environment exists for Volunteers and staff.

Before deciding to enter or reenter a country, it is the practice of the Peace Corps to conduct an assessment of the security, social, and political conditions in the country in order to determine the feasibility of establishing a Peace Corps program. The decision to conduct an assessment is made by the Director of the Peace Corps, who then identifies a team of senior managers to travel to the country to carry out such an assessment.

The Peace Corps evaluates several other factors prior to opening or reopening a Peace Corps post. Safety and security, programmatic, administrative, and medical/health criteria are evaluated on a country-by-country basis when deciding where to establish Peace Corps programs.

As part of the assessment process, the Peace Corps assessment team meets with host country government officials, local stakeholders, potential vendors, and representatives from UN agencies and other local and international nongovernmental organizations operating in the country. The Peace Corps also consults with the Department of State, the U.S. Embassy in the

country, and other relevant U.S. government agencies who contribute to local in-country development.

The findings of the assessment team are reviewed in the context of ongoing Peace Corps initiatives and budgetary constraints prior to the Director of the Peace Corps determining if the agency will open or reopen a program in the country.

Is the Peace Corps taking steps to better align its country program strategy with our nation's foreign policy interests?

Throughout its history, the Peace Corps has adapted and responded to the issues of the times. Peace Corps programs strive to reflect and address current global realities and the development priorities of the host country and the United States.

The Peace Corps best aligns with US foreign policy interests in the area of development. For example, following the fall of the Berlin Wall in 1989, the Peace Corps mobilized quickly to launch programs throughout the former Soviet Union. Between 1989 and 2005, the Peace Corps established programs in 12 of the 14 Newly Independent States. In total, the Peace Corps established programs in 20 post-Soviet states. In the 1990s, the agency began to expand programming in the area of HIV/AIDS awareness and prevention.

Today, the Peace Corps is a key partner in US efforts to combat the global HIV/AIDS pandemic. Additionally, nearly 25 percent of all Peace Corps Volunteers serve in countries considered to be predominately Muslim. This includes Volunteers who recently arrived in Indonesia, the world's most populous Muslim country.

Current U.S. government priorities in HIV/AIDS, food security, safe water, climate change, basic education, women and girls empowerment are all very compatible with Peace Corps core expertise. In FY 2011, Peace Corps growth will continue to focus on these priority areas.

Third Goal

- **What steps is the Peace Corps taken to expand the Third Goal?**

Peace Corps service continues long after Volunteers leave their posts overseas. Returned Peace Corps Volunteers (RPCV) have valuable leadership skills and life experiences to share with American communities. By bringing their Peace Corps experiences back home, the nearly 200,000 Americans who have served as Peace Corps Volunteers since 1961 help broaden the world for their fellow Americans and promote Peace Corps' Third Goal.

The Third Goal is a vital commitment for the Peace Corps family and returned Peace Corps Volunteers are uniquely suited to help promote a better understanding of other nations and cultures among their fellow Americans. Since my confirmation as Director in August 2009, I have worked to expand the Third Goal by strengthening the ways Peace Corps supports our Volunteers when they return and developing creative and effective ways to foster the united strengths of returned Peace Corps Volunteers by putting their experience to work to benefit communities in the United States and help Americans understand the world better.

To strengthen the agency's commitment to the Third Goal, I have requested that domestic and overseas Peace Corps staff incorporate the Third Goal in strategic planning at all levels of agency operations for FY 2011. I have also requested that, in addition to the seven areas mandated by Congress, the ongoing comprehensive agency-wide assessment look at ways that the Peace Corps can strengthen the Third Goal.

In early FY 2010, I created the Office of Public Engagement (OPE) to manage initiatives that will assist Volunteers and returned Peace Corps Volunteers in sharing their experiences with as many Americans as possible. I plan to utilize funds from the proposed FY 2011 budget to bolster OPE operations to – among other purposes – develop educational curriculum materials for American classrooms and place returned Peace Corps Volunteers in local schools to share their overseas experiences and broaden students' understanding of diverse world cultures.

Recent OPE efforts include the development of a new Third Goal video and a Peace Corps webpage with interactive resources that enable Returned Peace Corps Volunteers to remain engaged with the Peace Corps. The video, which highlights the many ways that Volunteers and RPCVs can share their Peace Corps experiences, is posted on the Peace Corps website and has been promoted through Peace Corps' social media networks. The Peace Corps also works closely with the National Peace Corps Association (NPCA) to encourage RPCVs to engage in Third Goal activities. The Peace Corps has recently developed a cooperative agreement with NPCA to assist RPCVs share their experiences in elementary and secondary school classrooms in the United States. Additionally, information related to Peace Corps Third Goal programming is advertised in NPCA's quarterly *Worldview Magazine*.

- **Are there any plans in place to leverage the foreign language and cross-cultural skills of RPCVs to help assist US resettlement of refugees? What partnerships does the Peace Corps have with refugee resettlement NGOs in the US?**

At nearly 200,000 strong, returned Peace Corps Volunteers have a tradition of making a difference in their communities by selflessly contributing their skills and experience through their dedication to service. The Peace Corps does not have any formal partnerships with refugee resettlement nongovernmental organizations (NGO) in the United States. However, opportunities for returned Volunteers to use their foreign language and cross-cultural skills are included in the employment and educational information provided to returned Volunteers through the agency's Office of Public Engagement. For example, non-profit organizations that help refugees settle in the United States participate in the career conferences hosted by Peace Corps for returned Volunteers. Additionally, job openings at refugee resettlement NGOs are also included in the semi-monthly career bulletin called *Hotline* sent electronically to all recently returned Volunteers.

Returned Peace Corps Volunteers also leverage their foreign language and cross-cultural skills through participation in the Fellow/USA program. Fifty two graduate schools across the country provide financial assistance to returned Volunteers enrolled in various advanced degree programs as long as they commit to working in underserved local communities while they pursue their graduate degrees. Fellows/USA graduate students have interned with local non-profit organizations that are helping refugees settle in the United States on their university campuses.

**FY 2011 Budget Request
Questions for the Record
Submitted by Ranking Member Kay Granger
for Peace Corps Director, Aaron Williams**

Internal Review

- 1. The Peace Corps fiscal year 2011 budget justification states that the review “will provide critical information and guidance to position the agency for strategic growth.” In the absence of this information and guidance, what is the justification for the significant organizational changes that are being made within the Peace Corps? Do you anticipate needing to redirect funding upon the conclusion of this review?**

Since my arrival at the Peace Corps, I have worked with members of the Peace Corps’ senior management team to thoroughly review the agency’s management structure to determine how best to carry out the goals and objectives of the Peace Corps. This review was guided by the shared belief that the Peace Corps has a strong, experienced staff, whose members are passionately dedicated to the mission of the agency. Therefore, we sought to craft a management structure that would encourage efficiencies by streamlining agency operations and ensure the effective use of all agency resources.

For example, the Office of Global Operations was created to provide overarching strategic support and management to several aspects of the agency’s direct Volunteer operations. The Office of Global Operations provides leadership, staffing, and resources to foster alignment, manage development, coordinate initiatives, and track both progress and impact of Peace Corps overseas operations. In addition to Peace Corps’ three geographic regions Africa; Europe, Mediterranean, and Asia; and Inter-America and the Pacific, the Office of Global Operations also includes the Office of Overseas Program and Training Support; the Office of AIDS Relief; and Peace Corps Response.

With increased resources, and a commitment to growth, the agency is dedicated to articulating, formulating, and communicating sound plans. I have requested that all agency staff provide their utmost support to the comprehensive agency wide assessment mandated by Congress in our FY 2010 appropriation.

The agency assessment team began their work in January and has been seeking input from a broad cross-section of the Peace Corps community. Additionally, I have asked three uncompensated outside reviewers to examine the recommendations put forth by the assessment team and to provide their independent comments. I will submit a final report based on the team’s findings to Congress in June of this year. I intend to carefully consider the recommendations made by the assessment team and take whatever steps necessary, including redirecting funding,

to ensure the prudent management of new, increased levels of resources in order to expand the Peace Corps in a measured and sustainable way.

Organizational Changes

- 2. The Office of Intergovernmental Affairs is charged with cultivating new agreements and partnerships with other U.S. government agencies and contributing to ongoing international development efforts. How will the Peace Corps maintain its priorities as an independent agency while further developing these relationships?**

Peace Corps programs strive to reflect and address current global realities and the development priorities of the host country and the United States. Through partnerships and collaboration with other U.S. government agencies, the Peace Corps makes meaningful contributions to ongoing international development efforts. Although the Peace Corps must maintain a unique level of independence from the broader foreign policy community, this independence should not inhibit the Peace Corps from contributing to efforts to leverage development impact through collaboration.

By establishing the Office of Intergovernmental Affairs (IGA), the agency seeks to support a comprehensive “whole of government” approach to development, both by enhancing existing relationships and cultivating new relationships with other federal agencies. Peace Corps Volunteers live and work at the grassroots level and are trained in the local language of their host community. By coordinating development strategies and project implementation where appropriate, the Peace Corps can utilize the resources and technical expertise of other U.S. government agencies to provide greater development impact at the grassroots level. Such coordination will not, however, threaten the Peace Corps’ status as an independent Executive Branch agency. Rather, coordination will focus on Peace Corps’ priority programmatic areas such as agriculture/food security, HIV/AIDS education and awareness, malaria prevention, education including teaching English as a foreign language, girl’s education, and renewable energy/climate change mitigation.

Strategic Partnerships

- 3. The Peace Corps FY11 request supports an increase in strategic partnerships with non-governmental organizations (NGOs). How will this be different than the current relationship the Peace Corps and its volunteers have with NGO's, particularly international organizations? Please describe what roles are envisioned for the NGOs and the volunteers. Will any functions that are currently performed by Peace Corps staff be transferred to NGOs?**

Partnerships have always played an important role in the Peace Corps programming and project development. In FY 2011, the Peace Corps will continue to seek to increase partnerships but in a more strategic manner. Through these efforts to explore innovative, strategic partnerships, the agency will expand its geographic reach and enhance the development impact of Peace Corps Volunteers.

The agency will ensure that such partnerships remain consistent with the Peace Corps "grassroots," community-based approach to development and its statutory authority as an independent U.S. government agency. The Peace Corps does not seek to make any fundamental changes to its approach or mission. Rather, in the spirit of the original vision of the Peace Corps as a flexible and action-oriented organization, and consistent with its development approach, the agency seeks to implement innovative partnership models in order to expand its geographic reach and enhance its development impact.

There are many benefits to be gained as a result of an increase in strategic partnerships. The unique strengths of the Peace Corps program model are complementary to the technical expertise of potential partner organizations. Peace Corps Volunteers live and work at the grassroots level providing them with a first-hand understanding of the needs of their host communities. Experts at partner organizations can enhance training opportunities by augmenting both Volunteers' and host-country counterparts' technical expertise, resulting in greater programmatic excellence. Volunteers can work with partners to link communities with the specific technological and financial resources that partner organizations may bring to a host country. Partnerships with key NGOs and community based organizations (CBOs) will assist Peace Corps posts to increase its integration into the larger development community within a host country allowing for a more fully coordinated development effort among all development agencies. The knowledge gained from the coordination efforts permits Peace Corps to strategically plan its activities to most effectively meet the needs of host country citizens thereby increasing the impact of Peace Corps. The Peace Corps' strategic impact in countries could be further augmented by partners' recommendations for additional local NGO or community placements for the expected increase in Volunteers, chiefly in countries where program priorities for Peace Corps and NGOs are compatible. This could extend the reach of Peace Corps in key countries.

**FY 2011 Budget Request
Questions for the Record
Submitted by Ranking Member Jerry Lewis
for Peace Corps Director, Aaron Williams**

Peace Corps National Advisory Council

- 1. How many members of the Peace Corps National Advisory Council have been nominated and confirmed? Is it anticipated that all 15 council members will be confirmed this year?**

Under the Peace Corps Act, the Peace Corps National Advisory Council is a Presidential advisory committee appointed by the President with advice and consent of the Senate.

As of Monday, April 12, 2010, no nominations for the Peace Corps National Advisory Council have been announced by the President. All nominees must pass through the Senate confirmation process. As this process has not yet been initiated, we are unable to speculate on the possibility of all 15 council members being confirmed this year.

- 2. Please describe how the fiscal year 2010 funding and 2011 request for the National Advisory Council is and will be used.**

The Peace Corps has estimated that the operating budget for the National Peace Corps Advisory Council will be approximately \$600,000 per year. These funds have been set aside in the FY 2010 budget and have been included in the FY 2011 budget request. If the Advisory Council does not operate in FY 2010, these funds will be reprogrammed within the agency's budget.

Members of the Advisory Council would be responsible for reviewing the activities of the Peace Corps to evaluate the accomplishments and potential capabilities of the agency. The Peace Corps Act states that members of the Council shall conduct on-site inspections and make examinations of the activities of the Peace Corps in the United States and other countries. It is anticipated that the Council would meet approximately once every three months. The estimated operating budget includes funds to cover compensation for Advisory Council members for days spent in actual performance of duties at a daily rate equivalent to GS-15 for no more than 20 days a year, travel expenses, and support staff costs.

WEDNESDAY, APRIL 14, 2010.

MILLENNIUM CHALLENGE CORPORATION (MCC)

WITNESS

DANIEL W. YOHANNES, CHIEF EXECUTIVE OFFICER

Mrs. LOWEY. Good morning. The Subcommittee on State, Foreign Operations, and Related Programs will come to order.

Today we are delighted to welcome Daniel Yohannes, the Chief Executive Officer of the Millennium Challenge Corporation, for his first hearing with us to discuss the President's fiscal year 2011 request for the Millennium Challenge Account.

Mr. Yohannes, you bring a wealth of experience in both the private and public sector to the MCC, and it is a pleasure to have you testify today.

The President's budget requests \$1.28 billion for the MCC, a 16 percent increase over the fiscal year 2010 enacted level.

As the MCC enters its sixth year of operation, we must examine accomplishments, shortfalls of the concluding country compacts, lessons learned for future compacts. And, although I share your belief that the MCC model holds tremendous potential to bring transformative change, reduce poverty, and support sustainable long-term economic development, this committee needs to hear today about the results achieved with the over \$7 billion that has already been committed to the 20 compacts and 21 threshold programs.

Last year's hearing focused on the proposed compacts with Malawi, Jordan, and the Philippines, and the committee appropriated \$915 million in fiscal year 2010 to support them. Can you share the current status of these compacts and when you believe they will be signed?

For several years, we have discussed the need to clearly articulate the short, medium, and long-term impacts of country compacts. In 2011, as country compacts in Benin, Georgia, and Vanuatu conclude, it is imperative to thoroughly evaluate the effectiveness and continuing impact of these programs.

As you know, I believe that we must evaluate the poverty-reduction successes of country compacts, not just general economic outputs. I hope you will provide insight on your efforts to do so in MCC's monitoring and evaluation programs.

The fiscal year 2011 request also includes two new country compacts in Zambia and Indonesia and additional funding for a country compact in Malawi. I hope that accountability measures will be put in place, especially in a country as large as Indonesia, to ensure that funds are not misused and to innovatively measure the impact of MCC assistance.

This year, MCC will complete its first 5-year compact in Cape Verde, making it the first country eligible for a second compact.

Can you explain why MCC is choosing to pursue a second compact, rather than entering a new country? Isn't this a departure from the original MCC model?

And, lastly, the success of all Federal agencies is dependent on the assurance that taxpayer dollars are spent effectively. The MCC was designed to improve development effectiveness by leveling the playing field and ensuring that the most effective companies are utilized. This model is predicated on fair and transparent contracting mechanisms. Are you satisfied with the current procurement mechanisms and that there are quality-control mechanisms in place?

Mr. Yohannes, I appreciate your testimony today and look forward to discussing the fiscal year 2011 budget request for the MCC. But, before we hear from you, let me turn to Ms. Granger, the ranking member, for her opening statement.

Ms. Granger.

OPENING STATEMENT OF MS. GRANGER

Ms. GRANGER. Thank you, Madam Chair, and good to be back with you.

Thank you and good morning, Mr. Yohannes. Thank you for appearing before our subcommittee.

Since the first compact was signed in 2005, MCC, as the chairman said, has programmed over \$7 billion in support in 20 countries. You are coming on at a very exciting time for the MCC, but a very crucial time.

I spent my first year as ranking member learning about the many, many foreign assistance programs under the jurisdiction of this subcommittee. We, of course, see enormous levels of suffering in the world in the news every day. I remain impressed by the generosity of the American people, not only through the official foreign assistance but through private contributions and charitable giving. However, we must examine our foreign assistance budget and fully utilize programs that build the capacity within these countries, so one day they are able to graduate from receiving foreign aid. MCC is one of a number of programs, I believe, positioned to do just that.

Today's domestic economic situation in the United States is a good reminder to us that jobs are the key to long-term economic growth, both at home and in developing countries. The MCC is the best tool in our foreign assistance budget to help lay the groundwork in select countries that have demonstrated responsible governance. With this tool, governments can strengthen local institutions and communities and ultimately attract the private-sector investment necessary to provide jobs and generate income. The MCC's economic rate of return for its projects are key to a country's overall success and growth. It should become the model for private-sector growth in these countries, leading the way for increased investment and additional jobs.

It is my hope to see the MCC progress from funding mostly infrastructure-focused programs to being a real catalyst for change, which was what was envisioned when the MCC was first created. Mr. Yohannes, given your background, I think you are the right person for the job. I look forward to discussing these topics with you.

And I yield back. Thank you, Madam Chair.

Mrs. LOWEY. Thank you.

Mr. Yohannes, as you know, your full statement will be placed in the record. You may summarize as you wish. Please proceed.

OPENING STATEMENT OF MR. YOHANNES

Mr. YOHANNES. Thank you, Chairwoman Lowey, Ranking Member Granger, and other members of this subcommittee, for the opportunity to discuss President Obama's fiscal year 2011 budget request of \$1.28 billion for the Millennium Challenge Corporation. With this funding, we anticipate signing MCC compacts with Indonesia, Zambia, and Malawi and possibly entering into a second compact with Cape Verde.

I would like to summarize my statement and submit the full version for the record, if I may.

I come to MCC from the financial services industry. I appreciate how MCC makes the business of aid more businesslike. My priority as CEO is to show how MCC's programs are delivering results and changing people's lives.

To achieve MCC's mission of reducing poverty through economic growth, I have set forth three priorities:

First, being innovative. We must make smart investments that will produce significant returns in the fight against global poverty. We will strive to continuously improve our financing and operations by looking at what has worked and what we must improve, making midcourse corrections to achieve better results and walking away from investments, even partners, who are not delivering on their promises. We must adapt programs based on implementation challenges.

I am committed to communicating with you as we work through these processes. I would like your support for critical legislative changes, such as concurrent and longer compacts. Congress created MCC to be innovative. We must live up to those expectations and build on our performance-based, transparent, country-driven model.

Second, leveraging partnerships. Getting the biggest bang for our MCC investment will require more creative partnerships with other U.S. Government agencies, the private sector, civil society, philanthropic organizations, NGOs, and multilateral institutions.

Third, delivering results and showing impact. We are committed to comprehensive monitoring and evaluation to analyze every MCC program as an investment. It costs money to do this right, and that is why monitoring and evaluation is included in MCC's budget request.

We must think differently about results. Five-year investment programs like ours produce outputs similar to those of other institutions, like the number of farmers trained, roads built, and land titles issued. Yet this does not go far enough to show how MCC is improving the lives of the poor.

During my recent visit to Ghana, I met with a farmer named Mavis. Mavis was one of the farmers that was trained by an MCC program. In Ghana alone, we trained 25,000 farmers. She told me how she went from producing five bags of rice to 140 bags of rice after one season after she participated in our training program. And now Mavis is investing the dividends in to the land, buying

additional land and also buying additional equipment. And she now has a better life than before. There are hundreds and hundreds of stories like this one.

Increases in individual incomes are only a small fraction of the total impact expected to result from MCC projects. Our impact evaluations will determine with rigor the long-term impact of our investments. All MCC compacts will undergo independent impact evaluations, and I look forward to sharing the results from these with you and the American people.

Leadership in these three priority areas will require that MCC remains committed to ensuring gender equality in all programs we fund, so that women as well as men can share in the benefits.

I am grateful for the strong relationship MCC has with this committee, and I welcome working with you to do even more to fight global poverty. With so many priorities competing for limited resources during these challenging times, we all have to be prepared to make tough choices. We can and we will make wise investments and deliver results with the resources you provide.

I welcome your questions. Thank you.

[The information follows:]

Millennium Challenge Corporation

Testimony of Chief Executive Officer Daniel W. Yohannes

Before the U.S. House Appropriations
Subcommittee On State and Foreign Operations

March 11, 2010



MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA



Biography

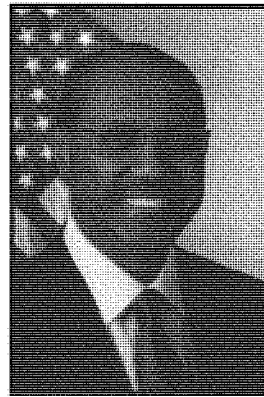
Daniel W. Yohannes *Chief Executive Officer*

Daniel W. Yohannes, is the Chief Executive Officer of the Millennium Challenge Corporation.

Since retiring from his post as Vice Chairman of U.S. Bank in 2003, Mr. Yohannes has been a private investor specializing in real estate, financial institutions, and the renewable energy sector. From 1992 to 1999, Mr. Yohannes was President and CEO of Colorado National Bank (part of U.S. Bank), and before this held a number of leadership roles at Security Pacific Bank (now Bank of America).

Mr. Yohannes is active in his community and served on various boards and civil organizations, including the Board of the National Jewish Hospital, the Denver Art Museum's Board of Trustees, the Smithsonian National Board, the Board of Directors of Media One (now Comcast), and the Board of Directors for the University of Colorado Medical School. He was a board member of Project C.U.R.E. (Commission on Urgent Relief & Equipment), which provides medical supplies for needy people around the world, and chairman of the Mayor of Denver's Greenprint Council, a leadership group focused on improving the environment of cities and reducing greenhouse gas emissions.

Mr. Yohannes graduated from Claremont McKenna College with a B.A. in Economics and earned an M.B.A. from Pepperdine University. Born in Addis Ababa, Ethiopia, he is fluent in Amharic.



Thank you, Chairwoman Lowey, Ranking Member Granger, and other members of the Subcommittee, for the opportunity to discuss today President Obama's fiscal year 2011 budget request of **\$1.28 billion** for the Millennium Challenge Corporation (MCC).

I appreciate your past support of MCC's work to reduce global poverty, and I welcome working with you to do more. My background is in banking, finance, and investment, and I hope you share my belief that smart aid like the aid MCC provides is one of the best investments the United States can make in the prosperity and security of our country and the world.

One thing that drew me to MCC is that MCC seeks to make the business of aid more business-like, and recognizes that sound investments require up-front risk assessments of both partners and projects. MCC also recognizes that while returns on investment will begin to show results in the early years, the biggest returns – sustained impact – will not be seen for many years.

As you know, MCC works to fight poverty by removing barriers to economic growth. I came to the U.S. from one of the poorest countries on earth when I was 17, so I understand poverty first hand. I've seen the dehumanizing nature and destabilizing effect of poverty.

I also understand that just pouring aid money into a country alone is not going to measurably change things. Sustained change must come from the recipient countries themselves. Aid can make a measurable difference when governments have sound economic, social, and governance policies, are committed to transparency and to fighting corruption, are accountable to their citizens, and are willing to take on the responsibilities of implementation and monitoring. These are the kinds of partners MCC is looking for.

We have also seen that sustainability requires a different approach to partnership from donors. It requires clarity of purpose for the assistance and the willingness to demonstrate long-term commitment through up-front program funding, in contrast to other aid programs that spend their appropriated funds each year. The flexibility of up-front funding that Congress provided MCC allows predictability of aid, better planning and budgeting by partner countries, and the ability to fund the long-term projects essential for sustained progress on development priorities such as food security. Thank you for your continued support of this critical best practice. Although the policy of up-front funding lowers costs and increases donor credibility, this approach also makes it appear that MCC has large, undisbursed balances even though the funds are, in fact, already in use to reduce poverty.

MCC also emphasizes sound investment analysis, results, and transparency throughout compact development and implementation. We analyze the costs and benefits of all proposed projects to ensure that our scarce resources benefit the most people and generate sufficient returns, and we analyze how those benefits will be distributed. This work is posted on MCC's website (www.mcc.gov) for public inspection and comment. We work with partner countries to develop detailed monitoring and evaluation (M&E) plans for compacts, and track the progress of compact programs

MILLENNIUM CHALLENGE CORPORATION

against defined benchmarks and outcomes, all of which are also available on MCC's website. Additionally, we have begun to post the detailed results of impact evaluations of MCC programs, starting with Burkina Faso's Threshold Program evaluation. Impact evaluations for compacts will also be posted on MCC's website later this year, beginning with an evaluation of the Madagascar compact.

MCC has been in existence just over six years. Much has been accomplished in that short period of time -- establishing a new government agency from scratch, constructing the eligibility indicator system, selecting early partner countries and, of course, designing and implementing compact programs that promote economic growth. But delivering results from these programs is what matters most. Because we ground our investments in economic analysis and vibrant monitoring and evaluation systems, we can show results achieved along the way, from policy reforms, to intermediate output results, to the ultimate impact goal of increased income and reduced poverty.

One of my top priorities as CEO is to show how MCC's programs are impacting people's lives. I am committed to achieving MCC's mission of fighting poverty through economic growth, and I have set forth three priorities to advance this mission.

First, being innovative. We must be willing to take responsible risks that will yield high returns in the fight against global poverty. This means intensifying our frank conversations with stakeholders, including with Members of this Subcommittee, on what MCC can do to be more innovative in our financing and operations. We must look at what works and what we can improve. For example, we are undertaking a comprehensive review of the Threshold Program. We must be willing to correct operations midcourse to achieve better results and be willing to walk away from investments—and even partners—that are not delivering on their promises.

I would like your support for critical legislative changes to improve our efficiency and effectiveness, such as concurrent and—in select cases—longer compacts. Congress created MCC to be inherently innovative, and we must live up to those expectations. We must build on our performance-based, country-driven, transparent model for awarding assistance.

Second, leveraging partnerships. Official development assistance is an increasingly small portion of financial flows to developing countries. Getting the biggest bang for our MCC buck will require more creative partnerships with the private sector, civil society, philanthropic organizations, and NGOs, who share our commitment to development. It will also require an increased emphasis on partnerships with other U.S. government agencies—USAID, OPIC, TDA, USTR—and the multilateral institutions to maximize results.

Third, delivering results and showing impact. We are committed to comprehensive and complex monitoring and evaluation. This is critical. Focusing on program evaluation allows us to gauge what has worked well and what has worked less well. This allows us to analyze every MCC program as an investment. It also costs money to do this right. This critical investment is included in MCC's budget request.

MCC has launched 20 compacts and 21 threshold agreements, committing nearly \$7.5 billion to reduce poverty. MCC estimates that our investments to date will benefit over 45 million people, raising incomes by \$9 billion over the life of investments. This does not count additional, follow-on benefits many countries experience by partnering with MCC.

By the end of FY10, MCC expects the following results across key sectors:

- ★ 500 kilometers of road constructed or rehabilitated and 1,500 kilometers of road works under contract, totaling \$753 million, to improve access to markets and social services.
- ★ 112,000 farmers trained and 50,000 hectares of higher value agricultural land under production with MCC support to increase the incomes of poor farmers and small enterprises.
- ★ 479,000 rural hectares formalized to strengthen property rights and provide beneficiaries with collateral to access credit and expand business opportunities.
- ★ Over 80 educational facilities constructed and renovations begun on 138 health clinics to improve the quality of and access to education and healthcare services.

Five-year investment programs like ours produce outputs similar to those of other institutions. While we can already report on the number of farmers trained, hectares under production, agricultural loans made, irrigation systems under contract, roads built, and land titles issued, our results framework must go further.

We believe that these outputs do not fully reflect impact, but instead show *preliminary* evidence of impact—namely, higher local incomes. For example, during my recent visit to Ghana I met a farmer named Bismark. After MCC-funded training, he began cultivating a variety of onion that is far more marketable than other crops he had farmed. He and his farmer-based organization were able to yield a profit, open a bank account, and finance irrigation equipment to make the next planting season even more profitable. Stories like Bismark's are early indications that we are getting closer to reaching our ultimate objective – impact through sustained increases in the incomes of poor people.

I would like to take this opportunity today to explain how MCC intends to allocate the FY11 budget request, to discuss more fully the results we have seen thus far and what we expect to see in the future, and to outline some major priorities moving forward for strengthening the model and delivering lasting change in the lives of the world's poor.

Compacts in Development for FY11

The President's budget request for FY11 will allow the agency to sign compacts to improve access to markets, help build democracies, and increase development for millions of impoverished people by providing more water, better sanitation, more reliable power, and improved roads; as well as fight corruption in partner countries.

MILLENNIUM CHALLENGE CORPORATION

MCC intends to allocate \$1.071 billion of the \$1.28 billion FY11 budget request for new compacts. This funding would be divided, subject to MCC Board approval, between first compacts for **Indonesia** (estimated at \$700-800 million, which would be funded over two fiscal years with the enactment of concurrent compact authority) and **Zambia** (estimated at \$300-350 million) and a second compact with **Cape Verde** (estimated at \$100 million). Additionally, MCC may use some FY11 funds for the Malawi compact currently under development.

Both Zambia and Indonesia have completed analyses of key constraints to growth and poverty reduction, which will inform the choice of sectors for their respective future compacts. In Zambia, where 82 percent of the population lives on less than \$2 per day, the initial constraints analysis identified infrastructure, especially power, road transport, and water supply; investment climate including macroeconomic policies; market failures and market coordination; and human capital, especially skilled labor, as potential areas for investment. As a result of the findings of this study, the Zambian country team is focused on developing compact proposals to achieve more inclusive and broad-based growth that is less reliant on copper production, which is vulnerable to wide price swings on the world market. Zambia completed an MCC threshold program in 2009 that focused primarily on the control of corruption indicator, and in FY10, Zambia succeeded in passing almost all of the MCC policy indicators, including control of corruption.

Indonesia is the fourth most populous country in the world and has more than 100 million people living on less than \$2 per day. MCC's partnership with Indonesia, an archipelago consisting of 15,000 islands, provides an excellent opportunity for innovation and creative programming. MCC has been working with Indonesia since 2006, helping to improve governance, fight corruption, and enhance public health through the MCC threshold program. A core team set up by the Government of Indonesia to develop the compact has overseen an analysis of constraints to economic growth and poverty reduction. This analysis identified four potential investment areas: (i) education and human capital development, (ii) infrastructure, (iii) governance, especially judicial reform and anticorruption efforts related to the business environment, and (iv) environmental sustainability. Indonesia provides excellent opportunities for MCC to fund innovative projects, including possible support for climate change adaptation investments and emissions reductions.

Indonesia's size and complexity make it a good candidate for concurrent compact authority, which I will discuss later in my testimony, both to support innovation and to ensure that only those projects truly ready for implementation are included in a compact. We are looking to broaden MCC's financing modalities within the Indonesia compact, including the potential of making resources available directly to NGOs and civil society.

Zambia and Indonesia have both commenced public consultations on their initial compact proposals. We have recently received project proposals from Zambia in the areas of roads, hydropower, ecotourism, technical and vocational education, and water supply and sanitation. Indonesia has just completed public consultations in nine regions and is expected to submit project proposals by June 2010. I would also refer you to MCC's FY11 congress-

sional budget justification where you can find more details about the compact development process underway in both countries.

MCC's first "second" compact eligible country

In addition to these new compacts, Cape Verde was selected in December 2009 as the first country eligible to develop a second compact after their current compact closes in October 2010. We have made it clear to all current partner countries that eligibility for a second compact is not automatic. The decision by MCC's Board of Directors to select Cape Verde as eligible for a second compact recognizes their progress on achieving results, successfully implementing their first compact, and their continued performance on MCC's policy indicators.

Because MCC assesses how well a country has implemented its first compact when determining eligibility for a subsequent one, gaining eligibility for a second compact is more difficult than for a candidate's first compact. A country being considered for a second compact must have demonstrated capacity to implement a compact successfully, maintain a strong and effective partnership with MCC, and adhere to MCC's core policies and standards (such as for fiduciary oversight and for social and environmental guidelines). While MCC cannot yet measure final impact for programs still under implementation, MCC closely measures interim progress and outcomes toward compact goals.

MCC does not intend to have open-ended commitments with partner countries. We will assess the appropriate duration and nature of each partnership by assessing sustainability of development outcomes and countries' ability to attract and leverage diversified public and private resources in support of development.

In the absence of concept papers this early in compact development, we have estimated budget requirements for Cape Verde's second compact based on several broad factors, including total population, population living below the national poverty line, absorptive capacity, and performance in compact implementation. Final compact size will be based on the quality and scope of projects submitted as well as available resources.

Administrative Budget Request

The FY11 MCC budget request also includes resources for compact development assistance as well as administrative and audit expenses. The FY11 budget request includes \$102 million for 609(g) assistance and due diligence funding to help prepare feasible and effective programs. For our administrative expenses, MCC is requesting \$102 million. This would allow us to attract and retain qualified professionals and meet the increasing costs of operating overseas. The remaining \$5 million is for audit expenses to ensure transparency and efficiency.

MCC has worked to control administrative costs as we put into place the structural components of an independent agency: a high-performing staff, a financial management system, dependable information technology, and fully competitive procurement and hiring practices. We have shifted from a start-up mode of rapid expansion to a focus

MILLENNIUM CHALLENGE CORPORATION

on compliance, effectiveness, and efficiency. Most of MCC's administrative expenses directly support compact implementation and development.

MCC's administrative expenses request does not assume any increase in staff or other new administrative initiatives. Two thirds of the requested increase is for overseas expenses, to open additional MCC Resident Country Missions in new compact countries and to cover the annual increase in International Cooperative Administrative Support Service (ICASS) and Capital Security Cost Sharing charges by the State Department. Most of the remaining increase is to cover the federal pay increase outlined in the budget.

As our fixed costs, and in particular overseas support costs have risen, MCC has sought to control our overall administrative costs by instituting salary cost controls, especially in the upper pay bands, as well as significantly limiting travel expenses. MCC has pursued outsourcing of administrative services, such as financial management and information technology, where appropriate as a cost-saving measure, to focus staff resources on our core mission of poverty reduction through growth. At the same time, MCC has looked for more efficient outsourcing options and eliminated non-essential contracted services.

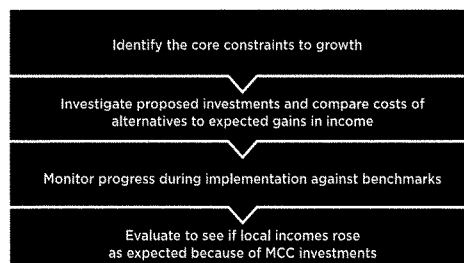
As a result of these cost-cutting measures, our FY11 administrative request is the amount needed to pursue innovation and to deliver the expected results through compacts already in progress. Any significant reduction will force us to consider options, such as deferring the opening of country missions or instituting a hiring freeze for our staff of 300 employees, which will have a deleterious impact on compact implementation and the achievement of our expected program results.

Delivering Results

As we remain focused on why MCC was created - - to help the poor fight poverty through economic growth - - we also must take advantage of our performance-based, country-driven, transparent model for awarding development assistance to deliver results.

Toward this end, MCC will build its expertise in monitoring and evaluation to measure for results and impact. Focusing on program evaluation allows us to know what has worked well and has worked less well, and it also allows you, and the American taxpayer, to know too. MCC has a track record of transparency that we will also build upon. Our website, www.mcc.gov, provides details of our performance to date and of the evaluations planned for the future.

MCC's Results Framework



Secretary of State Hillary Clinton, MCC's Board Chair, recently said: *"Aid chases need; investment chases opportunity."* Every MCC program is analyzed as an **investment**. This is how we determine if the projected benefits—that is, higher incomes for MCC program participants—justify the costs. And while MCC looks at overall returns as an important indication of how our programs will strengthen the local economy, we also examine the distribution of benefits to ensure that our investments reach the poor and that both women and men are participating. Our pre-investment analyses enable us to monitor progress during implementation and make needed adjustments to enhance impact. This results framework represents a fundamental innovation that allows us to distinguish success and learn from what does not work as anticipated.

As I mentioned earlier, I just returned from inspecting the progress of our \$547 million compact investment in Ghana that is making agriculture more productive, building schools, and paving roads. The numbers are impressive, but until you see the progress on the ground, it is hard to truly understand how complex, integrated, and successful this compact is.

The Ghanaians identified lack of education as a constraint to their country's economic growth, and MCC is proud to help address this challenge by funding the building of 310 schools. I met some of the boys and girls who now sit in classrooms for their lessons, instead of under trees. We have already seen enrollment increase substantially in the schools already rebuilt or rehabilitated. This project is also an important example of collaboration and coordination with our partners at USAID, who are training teachers for the schools we are building.

In addition to visiting schools, I was able to inspect progress on some of the rural roads our funds are paving, talk to pineapple farmers about how MCC-funded investments in cold storage are helping them export their crops, and meet a number of people who now have full rights and title to their property thanks to the MCC-funded land titling project. All of these elements are critical to successfully driving sustainable economic growth in Ghana through increased agriculture productivity. MCC's five-year program, therefore, works up and down the value chain. It starts with training the small farmer, works with banks to ensure he or she has access to credit, supports cooperative farming, and develops the roads to get products to markets.

I was honored to be part of a group distributing land title certificates to about 30 people, half of them women. MCC is funding new offices and surveys to provide these official land titles to a total of about 5,000 Ghanaians. As the many government ministers in attendance at the land titling ceremony said, these titles are an absolutely critical step in ensuring economic growth. If people have title to their land, they can use that asset to access credit and have the security they need to expand production. I was particularly happy to see so many women obtaining titles in their names.

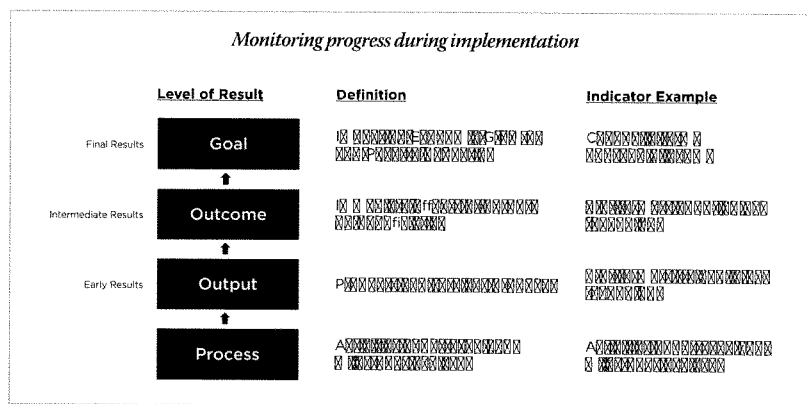
Before we left Ghana, I met with representatives of both the local and international private sector, who are also very excited about Ghana's future and about MCC's role in addressing economic constraints. I met one farmer who told me that after receiving training, credit, and technical assistance from the MCC program, she was able to increase her yield from five bags of rice a season to more than 140 bags. Another farmer, whose income was around \$60 last year, told me that in just the first two months of this year, he earned over \$403 by diversifying his crops and changing what he is growing to line up with international market demand. In Ghana alone, we have literally hundreds of stories of men and women like these, who now "see their farms as businesses and not just as an occupation," as one beneficiary said. While I do not believe every farmer we work with will see results like these, we should be able to measure the incomes and evaluate the programs to know what has been successful and what we need to change to be successful.

Any indicators of early success are just the tip of the iceberg and do not fully reflect impact. The observable increases in local incomes during the five-year compact represent only a small fraction of the total impact expected over the life of our investments, whose benefits are expected to accrue over the next 20 years. We are striving to connect these early activities and interim results to projections of overall impact, until our impact evaluations can determine with rigor the actual long-term impact of our investments. Every one of MCC's compacts will undergo an independent impact evaluation, with the results expected approximately nine to 12 months after its closing. By the end of 2010

alone, we expect completed impact evaluations of the Madagascar compact as well as three threshold programs. All of the impact evaluations will be made public.

Our first evaluation of the threshold program in Burkina Faso in 2009 revealed an increase in both enrollment and test scores because of the MCC-funded threshold program to expand education for girls. As this committee well knows, investing in girls' education is key to achieving long-term economic growth.

As with any investment, we expect to see yields above, at, and below original expectations. In every case, we will be able to apply the lessons learned to future operations. I have included an appendix to my testimony today to share some of the results we have seen so far. I hope to count on your support as we share with you the impact from more of these evaluations in the months and years ahead.



Building on Experience: Implementation Progress

Given our commitment to tracking results, MCC continues to identify and address obstacles to efficient and effective program implementation. Critical requirements to achieve both process and impact outcomes include:

- ★ effective target-setting for effective management,
- ★ reasonable country capacity,
- ★ access to appropriate skill sets within and external to MCC,
- ★ smart project design (especially in mitigating restructuring risk),
- ★ high-performing intermediaries (e.g., procurement and fiscal agents, project managers),

MILLENNIUM CHALLENGE CORPORATION

- ★ quality control of contractor performance,
- ★ flexible and responsive procurement planning,
- ★ anticipation and management of financial problems,
- ★ management of completion risk,
- ★ anticipation and management of political change,
- ★ early and decisive intervention for trouble-shooting, and
- ★ early and ongoing social assessments, including gender and environmental assessments.

These issues are being addressed systematically as they emerge, and MCC is taking pro-active steps to incorporate past experiences in order to minimize risks and maximize results.

Legislative changes to intensify impact

We must continue to look at what works and what we can improve to deliver sustainable results. The President's FY11 budget request for MCC is linked to a forthcoming legislative proposal that will include several changes to MCC's current authorities. I would like your support for *concurrent* compacts and, in select cases, *longer* compacts.

Concurrent compact authority would allow MCC to sign separate innovative compacts with a country based on the specific timing requirements of each individual project rather than as part of a multi-project package driven on a single timeline. MCC's budget request for FY11 assumes concurrent compact authority in order to begin elements of a compact with Indonesia in 2011. Concurrent compacts would improve the ability to manage the compact pipeline with greater predictability, serve as an added incentive for ongoing policy reforms in partner countries, and help lessen MCC's unobligated funds.

With concurrent compacts, the agency could move forward with projects that are investment-ready, instead of putting several projects at various stages of readiness into a single compact or delaying compact signing for a promising but less-developed project. As part of a larger, cohesive framework, concurrent compacts will allow for smaller, staggered agreements and more certainty in the budget process; speed implementation; improve project management by allowing countries to focus on managing fewer projects at a time; build management capacity with early projects; ease the current burden of managing large, complex compact programs; and foster innovation by allowing MCC to pursue new approaches and partnerships that may normally slow down the compact development process.

Concurrent compacts would also have a positive effect on budget predictability and accountability. A key element of the MCC model is the ability to obligate total program funding at the point of a compact's entry-into-force. This obligation of the full compact amount at the outset of the compact term is consistent with lessons learned in aid effectiveness. It allows partner countries to plan and manage development strategies and budgets in a sustained way. It also allows MCC to make large investments in long-term infrastructure projects without suffering the cost premiums associated with uncertain project funding. This practice, however, means that MCC often holds undistributed balances. Concurrent compact authority would allow MCC to sign smaller compacts, implement them more efficiently, and thereby reach disbursement targets more quickly.

Longer compact authority would give MCC the authority, in certain circumstances approved by MCC's Board of Directors, to enter into compacts with terms up to seven years in order to complete complex projects, such as in infrastructure or public-private partnerships. This authority would allow MCC to structure compacts so that, on occasion, certain individual projects could exceed the five-year rule for a short period. Having definite time-frames for MCC compacts is an important best practice for effective foreign assistance, but in some cases the most impactful projects for poverty reduction are too large or complex to be completed within the mandated five-year period, particularly with MCC's emphasis on recipient-led implementation and MCC's high due-diligence standards.

We are also re-looking at partner country selection and are looking at refinements that will ensure that changes in a country's income category do not prevent MCC from working with the highest performing poor countries. Each year, many countries abruptly graduate from one income category to another with no transition period, impacting whether they can be candidates for MCC assistance at all and changing both the policy performance standards against which they are measured and the levels of funding that they can receive. Sudden graduation shifts and the growing number of MCC partners that have now been categorized as lower middle income countries (LMIC) pose serious policy and structural dilemmas for MCC. With a substantial and increasing number of compact-eligible countries now LMICs, the funding limit in MCC's current authorizing legislation deeply constrains the resources these countries can access, even though they have large populations below the poverty line. Sixty percent of the current lower middle income country candidates in FY10 were considered low income countries in MCC's first selection round in FY04.

These changes are based on lessons learned since MCC's creation and will provide the needed flexibility to maximize the impact of MCC programs. We must embrace innovation if we want to be on the cutting edge of delivering impact. MCC will work with members of this Committee, the congressional authorizing committees, and others in Congress to make these important legislative adjustments.

Chairwoman Lowey, Ranking Member Granger, Members of this Subcommittee, I am grateful for the strong working relationship that MCC has with you. I ask for your support today in funding the President's request of **\$1.28 billion** for the Millennium Challenge Corporation to achieve the impact we all seek in the fight against global

MILLENNIUM CHALLENGE CORPORATION

poverty. Global poverty is a tremendous challenge; there is, regrettably, more need than resources. MCC can – and will – make wise investments with the resources you provide.

I am pleased to answer any questions you may have on the President's FY11 request or MCC in general.

Appendix

MCC's First Six Compacts (as of 12/09)

Country	Total Compact Funds (Mil \$)	Mil. \$ Disbursed (% of total Compact)	Mil. \$ of Contract Commitments (% of total Compact)
Cape Verde	\$110	\$71 (64%)	\$101 (92%)
Georgia	\$395	\$195 (49%)	\$334 (85%)
Honduras ¹	\$215	\$133 (62%)	\$192 (90%)
Madagascar ¹	\$110	\$86 (78%)	\$87 (79%)
Nicaragua ¹	\$114	\$88 (78%)	\$103 (91%)
Vanuatu	\$66	\$47 (71%)	\$64 (97%)
Total	\$1,009	\$618 (67%)	\$881 (87%)

Projected Results: \$740 M in estimated additional income gained by 6.4 M beneficiaries by 2027 (compared to \$642 M in projected present value of costs)

Selected Outputs to date	Selected Outcomes to date
247 km of roads constructed, with additional 74 km to be completed by June 2010	Smoother roads, lower travel costs and time, and increase in daily traffic [data available beginning in 2011]
44,667 farmers trained in improved practices	11,855 farmers applying new practices, harvesting higher value crops or implementing business plans
966 agribusinesses assisted with grants or training	17,001 hectares under production with MCC support
33,355 hectares of rural land formalized	\$27.87 M in agricultural and rural loans
9 irrigation reservoirs constructed	540 farmers connected to community irrigation systems
\$64 M in regional infrastructure grants signed in Georgia	Savings in household expenditures for services [data available in 2011]

Timeline for Compact Evaluations

Country	Compact complete	Final Evaluation Report Expected
Madagascar	August 2009	December 2010
Honduras	September 2010	Oct. 2010 for Rural Development, Sep. 2011 for Transportation
Cape Verde	October 2010	March 2011 for Roads, July 2012 for Agriculture
Georgia	April 2011	Dec. 2011 for RID, Transport & Agribusiness, Apr. 2012 for Energy & GRDF
Vanuatu	April 2011	June 2011
Nicaragua	May 2011	Sep. 2011 for Rural Business, Dec. 2011 for Transportation

¹ Partially or Fully Terminated

Testimony of Chief Executive Officer Daniel W. Yohannes, March 11, 2009

Selected Interim Results

Cape Verde

- ★ Irrigation and Watershed Management: Over 100 farmers have received drip irrigation loans. The increased income from the use of surface water catchment infrastructure (reservoirs and control dikes) and drip irrigation is estimated to be \$700,000 by the end of the compact. Twenty-three of 28 reservoirs have already been constructed. The 28 reservoirs are expected to deliver improved irrigation to over 100 hectares for almost 350 farmers.
- ★ Access to Credit: A total \$351,000 of \$450,000 has been disbursed in the form of rural loans through micro-finance institutions to farmers and agribusinesses in the three agricultural project intervention zones with a repayment rate of 92 percent.
- ★ Infrastructure:
 - The estimated number of roads and bridge project beneficiaries on Santiago and Santo Antão islands is 73,600. The estimated annual savings on transport costs from upgraded roads and bridge improvements at the end of the compact is equivalent to \$2 million.
 - Four bridges were completed in October 2009. The bridges were functional during 2009's long and heavy rainy season, reducing the average annual number of days key riverbeds were impassable from 8 to zero.
 - Thirty-six of 40.5 kilometers of three rural roads have been upgraded and now connect coastal and inland villages with larger population centers and markets.
 - The estimated number of beneficiaries for the port rehabilitation project will be 347,000 with an estimated \$4.1 million increase in income at the end of the compact.

Madagascar

- ★ Land Tenure: Four *Land Tenure Reform and Framework* laws were developed and ratified. Also, 540,835 land rights documents were inventoried, 258,469 restored, and 266,963 titles digitized. A total of 327 new local land offices were created to enable local governments to formalize land rights in their jurisdictions over the long term. These offices delivered nearly 24,000 land certificates to 13,344 recipients, securing 20,828 hectares.
- ★ Finance Reform: Rural savings in the implementation zones increased by \$14 million (from \$15 million to \$29 million), while the value of rural loans increased by \$1 million in the implementation zones.

- ★ Agricultural Business Investment: Six Agricultural Business Centers were opened in six regions. Over 1,890 farmers with two years of training were applying agricultural techniques they had been trained in, while 9,650 farmers with one year of training were employing productivity-improving technical packages. Over 490 farmer cooperatives were created and are registered with the government, and 837 commodity contracts were negotiated.

Honduras

- ★ Farmer Training: In Honduras, 6,200 farmers have been trained and it is reported that more than 3,200 farmers have already begun harvesting high-value crops on approximately 5,900 hectares.
- ★ Transportation: Approximately 600 kilometers of roads are under contract for construction of which 148 kilometers are complete. These roads will provide rural communities with improved access to markets, social services, and main road networks. It is expected that increased access to markets and decreased travel time will increase the incomes of beneficiaries living near the roads, as well as the number of businesses along the roads, generating further income and jobs.

Georgia

- ★ Farmer Grant Programs: Household net income of all farmers participating in the *Agribusiness Development Activity* is reported to have increased by \$1.65 million since the inception of the activity, and farm income of agribusinesses receiving support has increased by \$1.65 million as of the end of FY09. This will directly improve the lives of about 2,100 farmers and their employees.
- ★ Access to Credit: Over \$8 million in agricultural loans have been disbursed to agribusiness enterprises working in poultry production, vegetable canning, hazelnut processing, and fish catching and processing.

Armenia

- ★ Farmer Training: Over 30,000 farmers had received training and technical assistance in better on-farm water management techniques by the end of FY09. As a result of MCC-funded programs, real income from agriculture in rural Armenia is expected to increase by five percent by the end of the compact term.
- ★ Irrigation and Watershed Management: Just over six kilometers of tertiary canals were completed before the 2009 irrigation season. As a result, farmers were able to water their fields more often and grow higher value crops.

Nicaragua

- ★ Farmer Training: To date, a total of 8,829 beneficiaries have received technical assistance and grants. Examples of the most successful agriculture producers include plantain growers who increased the volume

MILLENNIUM CHALLENGE CORPORATION

of plantains sold by 70 percent, cassava producers who increased the volume of cassava sold by 76 percent, and milk producers who increased the volume of milk sold by 45 percent.

Ghana

- ★ Ghana Farmer Training: Approximately 20,000 farmers are participating in training activities under MCC's compact with the Government of Ghana and nearly 15,000 have completed training with a total of 60,000 farmers expected to be trained by the compact's end. Over 5,000 hectares are already under production as a result of MCC support.

Tracking Results of MCC Investments in Agriculture and Irrigation

INDICATOR TYPE	PROCESS		PROCESS		OUTPUT		OUTPUT		OBJECTIVE	
	Feasibility and/or Detailed Design Includes EIAs, EMPS, and RAPs, as applicable MONTHS 0 TO 24		Construction/Capacity Building/Other Support to Farmers and Enterprises MONTHS 12 TO 48		Number of Farmers Trained Number of Enterprises Assisted Hectares under Improved or New Irrigation		Hectares Under Production Value of Agricultural and Rural Loans Number of Farmers that Have Applied Improved Techniques Number of Enterprises that Have Applied Improved Techniques		Increase in Agricultural Value-Added or Income	
CURRENTLY IMPLEMENTING	Armenia.....	\$7.67M, 100%	\$45.13M in design contracts 25.44% disbursed	Armenia.....	\$56.53M, 11%	Armenia.....	33,519 farmers, 126 ent	Armenia.....	\$6.13M	Income increases attributable to MCC activities will be measured by impact evaluations
	Burkina Faso.....	\$0.3M, 78%		Burkina Faso.....	\$5.31M, 83%	Burkina Faso.....	400 farm, 31 ent, 75.2ha	Burkina Faso.....	\$3.1M, 44 farmers	
	Cape Verde.....	N/A		Cape Verde.....	\$80.34M, 11%	Cape Verde.....	4883 farmers, 40 ent	Cape Verde.....	\$3.1M, 44 farmers	
	Ghana.....	\$7.98M, 8.92%		Ghana.....	\$4.65M, 22%	Ghana.....	246 ent	Ghana.....	\$15.48M	
	Georgia.....	\$1.18M, 40%		Georgia.....		Georgia.....	4970 ha, \$18.22M, 4 ent	Georgia.....		
	Mali.....	\$8.4M		Mali.....		Mali.....	7820 ha, \$11M, 6422 farms	Mali.....		
	Morocco.....	\$18.9M, 9%		Morocco.....		Morocco.....	4883 farmers, 40 ent	Morocco.....		
PENDING	Nicaragua.....	\$0.7M, 100%	Nicaragua.....		Nicaragua.....	31,366 farmers, 324 ent	Nicaragua.....	\$1.08M, 1092 farms, 1 ent	Nicaragua.....	\$1.08M, 1092 farms, 1 ent
						8829 farmers				
TOTALS										
Expected upon completion of works										
Income increases attributable to MCC activities will be measured by impact evaluations										
100% implementation and capacity building activities will be measured by capacity building impact evaluations. These activities will be implemented by the project's implementing agency, which will be selected by the project's implementing agency.										

17

[illegible]

Tracking MCC's Road Project Results

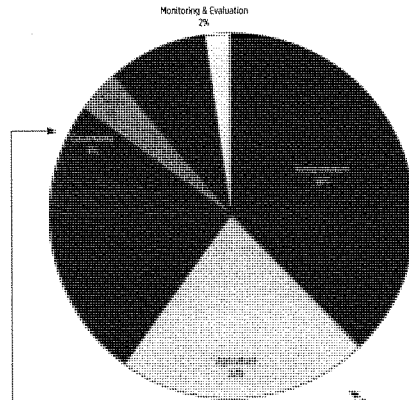
INDICATOR TYPE	FEASIBILITY AND/OR DETAILED DESIGN Including Environmental Impact Assessments, Feasibility Studies, and/or Detailed Design, as applicable	PROCUREMENT FOR CONSTRUCTION CONTRACTORS 6 TO 9 MONTHS	CONSTRUCTION 1 TO 3 YEARS	OUTPUT	EXPECTED OUTCOMES UP TO 15 YEARS
PROGRESS INDICATORS	Value of signed contracts for feasibility, design, supervision, and program mgmt contracts	Value of signed contracts for road works	% of contracted roads works disbursed	Kilometers (km) of roads completed	IRC International Roadways Index (IRI)
	26.2% of contracted funds drawn sec; 4094.53 km of roads under design	\$144.76 million in works contracted	33.42% of contracted roads works disbursed	293.69 km of roads completed	Expected upon completion of works
TOTALS	\$111.98 million in studies contracted				
CURRENTLY IMPLEMENTING	Armenia \$3.1M Burkina Faso \$3.8M Cape Verde \$3.4M El Salvador \$11.9M Georgia \$1.98M Ghana \$12.1M Honduras \$6.9M ^a Mozambique \$76.7M Nicaragua \$6.5M Tanzania \$18.5M Vanuatu \$3.0M	Armenia \$4.7M Cape Verde \$215.5M El Salvador \$50.2M Georgia \$165.4M Ghana \$170.17M Honduras \$195M Mali \$37.90M Vanuatu \$56.3M	Armenia 100% Cape Verde 95% El Salvador 23.1% Georgia 29.7% Ghana 11.7% Honduras 27% Mali 29% Nicaragua 98.8% Vanuatu 65%	Armenia 24.5km Cape Verde 35.7km Georgia 104m Honduras 148km Mali 23.49km Vanuatu 52km	MCC investments in roads aim to reduce transportation costs, improve access to basic services, increase firm to market access, and facilitate trade.
PENDING		Burkina Faso Mozambique Tanzania	Burkina Faso Mozambique Tanzania	Burkina Faso El Salvador Ghana Mozambique Nicaragua Tanzania	

[illegible]

MILLENNIUM CHALLENGE CORPORATION

MCC Compact Program Results

MCC Compacts by Sector - All Compact Countries
Millions USD, Total \$6.9 billion
As of Dec. 31, 2009



Roads

- ★ \$745 million of signed contracts for road works
- ★ 1,465 kilometers of roads under works contracts
- ★ 294 kilometers of roads completed

In transportation projects, roads rehabilitation and construction aim to reduce transport costs, improve access to public transportation and basic services, and facilitate trade. In agriculture projects, roads aim to link producers to markets for their goods, and to inputs for their production. Roads in irrigation projects provide access to, from, and within irrigated areas.

Property Rights and Land Policy

- ★ 33,335 rural hectares formalized
- ★ 2,454 urban parcels formalized
- ★ 14,309 stakeholders trained

MCC's PRLP investments are designed to contribute to poverty reduction and economic growth by establishing secure and efficient access to land and property rights. PRLP support of legal and regulatory reforms, clarification and formalization of land and property rights, capacity building of local institutions, and land-related outreach and education are aimed at reducing transaction costs, increasing tenure security and improving allocation of land. This, in turn, will result in increased transactions and investment in land and property and higher land productivity and value.

Water and Sanitation

- ★ \$49.09 million in signed contracts for water and sanitation works

MCC investments in human capital through education and training are widely recognized as critical for improving productivity and economic growth and reducing unemployment and poverty. They aim to enhance the skills of the nation's most enduring and competitive asset through school construction, teacher training, legal reforms, and higher female enrollment.

Agriculture and Irrigation

- ★ \$146.65 million of signed contracts for irrigation works
- ★ 104,866 farmers trained
- ★ 31,587 hectares under production with MCC support

MCC investments in agriculture and irrigation aim to increase incomes by creating jobs in the agriculture sector, increasing farmers' capacity, productivity and access to markets; improving access to credit; and strengthening agribusiness. Irrigation includes construction and rehabilitation of irrigation systems and watershed management systems.

Education

- ★ \$722 million in signed contracts for construction and/or equipping of educational facilities
- ★ 57 facilities built

MCC investments in human capital through education and training are widely recognized as critical for improving productivity and economic growth and reducing unemployment and poverty. They aim to enhance the skills of the nation's most enduring and competitive asset through school construction, teacher training, legal reforms, and higher female enrollment.

Mrs. LOWEY. Thank you for your thoughtful testimony.

As you well know, without fail, every year we have a conversation about the disbursements of MCC compact funds. Now, we understand, certainly, on this committee the need for slow dispersion of funds to ensure accountability. But I am concerned that even those compacts that are nearing completion are not working effectively.

For example, Cape Verde's country compact will conclude in 7 months, October 2010, but only 63 percent of the compact funds have been disbursed. Georgia's compact will conclude in April 2011, but only 48 percent of the compact funds have been disbursed. Vanuatu's compact will also conclude in April 2011, but only 69 percent of compact funds have been disbursed.

So there are several questions I have. First of all, will the remaining funds be disbursed before the compact concludes? Will you be asking to extend the term of these compacts? And, beyond the disbursement of funds, will these countries be able to complete the programmatic components of the compacts before the 5-year deadline?

And, equally important as the other questions, in fact we would say maybe most important, what economic results have resulted from these compacts? And do you have concrete data that you can share that proves the MCC has been an effective tool for lifting people out of poverty?

I think there are many people that were all excited about the MCC and felt this was a new way of doing business. The others, after a couple of years, are saying, "Well, it is business as usual. What have they accomplished?"

I think it is very important that you explain and give us some concrete evidence that the MCC is doing differently and the results are different and more positive, moving the country in an independent direction.

Thank you.

Mr. YOHANNES. Thank you, Chairwoman Lowey. I share your concerns. And to show results to this committee, to Congress, and to the American people is my number-one priority today and also for the next 3 or 4 years.

Having said that, we have interim results, and the interim results we have are very consistent in terms of how the industry as a whole reports results. For example, in terms of the agriculture area, we have about 150,000 farmers trained. And I came from one of the countries, Ghana, where we have trained over 25,000 farmers, and every farmer I have spoken to, they told me how our programs are having a tremendous impact in terms of their ability to increase production and also being able to increase their income.

Projects in Nicaragua, where we train a lot of farmers, the farmers there have improved their production by 75 percent in fruits and then also 40 percent in milk production. So we get stories after stories.

In roads, the nature of the investment by design are not completed in 1 or 2 years, they are primarily long-term projects, but we have completed already about 350 kilometers, and we have about 1,400 kilometers that are under construction, and we have designed about 4,500 kilometers.

When I was in Cape Verde, I drove on the 40 kilometers that was completed that connects one coastal town to another coastal town. What I was told in speaking to community leaders, government officials, and farmers, now they have access to markets, they have access to clinics, they have access to schools as a result of the 40 kilometers that was completed. 100,000 people are benefiting from this road construction.

In Ghana, we are not only concentrating on the agriculture, but also we are building a lot of feeder roads that are providing access to many of the farmers to the markets.

As far as education is concerned, in Ghana alone, where I just went last month, we have completed 65 schools, and we are planning to build an additional 200 schools in the next 2 years. And I was told, as a result of our investment in this sector, that we now have, you know, 40 percent more enrollment and the girls enrollment has increased by 100 percent.

And, in terms of other investments we have, in addition to what is visible, you know, we have been able to have a tremendous impact in terms of policy reform. In Lesotho, for example, because of our compact we were able to get full rights for women. In Nicaragua, where we built over 100 kilometers of road, we were able to work with the government so now they set aside some funding for road maintenance. Where previously they only had about \$3.5 million to maintain 500 kilometers, today that program has been expanded to include 2,700 kilometers and they now have about \$35 million set aside for road maintenance.

So, in addition to a lot of the visible projects that have been committed and are having some impact, we are seeing significant changes in terms of policy reforms.

For example, we are in the process of completing the port in Benin and Cape Verde. Two of those projects are going to be transferred to the private sector for management. In Moldova and Georgia, where previously the management for many of the irrigation systems were owned by the state, now, because of our compact, they are going to be transferred to the private sector for management. So not only are we seeing tremendous results for the last 5 years, but also we are seeing a tremendous impact in terms of policies in partner countries.

Now, when you talk about results, we are the only agency in this country, maybe even in the world, that looks at it differently. In addition to the interim results that were submitted and discussed this morning, we don't begin impact evaluations until the end of the 5 years. At the end of 5 years, we bring in independent evaluators to tell us if our investments are providing the desired impact on the ability to raise the partner's income. We have Cape Verde and Honduras this year that will come to the end of 5 years, and we should be able to provide you with our assessment sometime next year.

Also, from experience, I mean, you are going to see some results at the end of 5 years, but the much bigger result will begin to happen at the end of 10 years, 15 years, and 20 years. Our \$7.5 billion investments are projected to increase our partners' income by \$9 billion over a 20-year period. So it is working.

And, also, in areas where we have learned lessons, we are making some adjustments. I know you mentioned your concern about Cape Verde. When I was there, I spoke with the prime minister, the finance minister, all the engineers. And the port that is under construction will be completed on time before September, and the funds will be disbursed, all of them, before the completion date, which is in September. So I am not concerned about the completion.

I know you raised Vanuatu. I believe it is going to be completed, as well. Of course, due to the nature of the projects, it takes a long time. The first 3 years you spend little, but a lot happens at the end.

Mrs. LOWEY. I want to turn to Ms. Granger, and I did want to keep us all to our time so we can go around. However, I just want to mention one point, if I may, that you can think about.

I have been to many countries in Africa, as you have, and in other places of the world, as well. And this was supposed to be a new, different model. But corruption is business as usual. You have seen the reports about Senegal, where the MCC just signed a \$540 million compact in September 2009.

Similar reports are emerging from Ghana. And Johnny Carson, as you know, the Assistant Secretary of African Affairs, has been engaging with Ghana. We are hearing reports about the government extracting money from newly discovered oil, using money in inappropriate ways.

So we are concerned that there are many reports that are emerging in several compact countries that businesses are facing unreasonable regulation, extortionist practices by members of the government. And we can discuss that further when it is my turn again, but I want to make it clear to you that this was supposed to be a new process. And we are seeing business as usual, corruption as usual, and we are not seeing the lifting up of the people in the country to make this really different.

So I want to turn to Ms. Granger. It may be unfair for me to not let you respond, but I did want to move on.

Mr. YOHANNES. Okay. All right. No problem.

Ms. GRANGER. Thank you.

As I addressed in my opening remarks, I am interested in your ideas and plans to involve the private sector. I have here in front of me an interview you gave on February 12th talking about how important that is. And, you know, we don't have unlimited foreign assistance dollars. The foundation for economic growth is, I believe, the private sector.

So would you tell me why you think the foreign aid community has failed to grasp the role of the private sector and what it can play in economic development of African countries and other poor nations? And give me some details about opportunities you have identified at MCC to partner with the private sector in compact implementation.

Mr. YOHANNES. Thank you very much.

One of the best ways to achieve economic prosperity is by bringing the private sector in as partners. We are investing about \$7.5 billion with many of our partner countries. We look at it as a downpayment. I mean, it is going to have some significant impact, but,

nevertheless, the longer impact is going to happen when you include the private-sector investments within the country as well as from outside. And many of those countries we work with are countries that share the same values as ours.

In addition to the visible results that we have seen in the last 3 or 4 years, we believe that this system where we have an opportunity to work in partnership, primarily as it relates to policy, changes by making their countries very attractive to investment from outside as well as within.

Having said that, we are trying to leverage the investment by bringing the private sector into the picture so that they can consider investing in many of these countries. For example, in El Salvador, where we do have a compact, we are able to work with a Virginia-based company in which we invested about \$31 million. Now they are bringing electricity to northern El Salvador, benefiting something like about 200,000 people.

In addition to the private sector, since I have been on board for the last 4 months, I have reached out to a lot of other government agencies and nonprofits like the Gates Foundation. We are trying to find a way in which we partner together to leverage the investments that have been given to us by Congress.

So, in the long term, I really believe the best way to achieve prosperity or reduce poverty in a very sustainable way is really to bring the private sector into the picture. That is the only way.

Ms. GRANGER. I agree with that; I just don't see it happening. The chairwoman talked about the enormous investment and the intention of the MCC. And so, what we are saying is: That was the intention; here is the money that has been approved. But what is happening, where we can point to it and say, yes, this private investment has occurred or is occurring right now?

Mr. YOHANNES. There is some that has occurred. I think we have to knock on the doors of a lot of American businesses. Of course in some cases, we have not had a lot of interest in the past. But now it is our job at MCC to spread the word, the fact that many of those countries we work with are ready and prepared to accept investments from our country as well as investments within their own countries.

So we have to do a lot of education, informing a lot of American businesses to the fact that these are countries ripe for investment. So we have a lot of work to do, Madam Congresswoman.

Ms. GRANGER. Okay. I have a few minutes left, and so I am going to go back to the corruption issue that the chairman asked. And my question is, has any country had MCC funding delayed or stopped because fraud or corruption has been detected? In other words, what are the safeguards, and what has happened?

Mr. YOHANNES. I think that is a great question.

We take corruption very seriously. It is the major hindrance to economic development. We have safeguard after safeguard after safeguard. And I have asked if we had lost anything in the past. The answer is, we have not lost a dime to corruption or corrupt practices because we have excellent safeguards.

We have procurement agents. We have fiscal agents. We do audits on a quarterly basis. We don't disburse the funds directly to the countries; we disburse the funds directly to the vendors.

And I believe we have a very good system, but I am committed to make sure that we continue to refine the system so that American taxpayers' money is not spent on corruption or corrupt practices.

Ms. GRANGER. So are you saying funding has been stopped when corruption—

Mr. YOHANNES. We have not seen any money spent on corruption or corrupt practices because of the system we have put in place.

Ms. GRANGER. What I am saying is, where there is funding—or we have said, “We approve funding,” and then we have discovered the corruption, has our funding stopped? Have we said, “You don’t get the funding”?

Mr. YOHANNES. We monitor those countries on a yearly basis. We have indicators that primarily put a lot of emphasis on corruption. I know Chairman Lowey talked about Senegal and others countries. And, when we made the decision, when the board made the decision to fund some of those countries, a lot of those countries passed the corruption test. And if, in fact, then, the country fails some corruption indicators, then the board has an option to terminate, suspend, or to put on hold. But we have not had any country that failed the corruption test indicators in which the board had to make a decision.

Ms. GRANGER. So the answer is no?

Mr. YOHANNES. The answer is no, yes.

Ms. GRANGER. Thank you.

Madam Chair?

Mrs. LOWEY. We will continue that discussion. First, Mr. Israel?

Mr. ISRAEL. Thank you, Madam Chair.

I would like to continue that discussion, particularly with respect to Ghana, which the chairwoman raised. I want to share with you an editorial that appeared in the Wall Street Journal on February 18, 2010, headline, “Why Africa Is Poor: Ghana Beats up on Its Biggest Foreign Investors.” And let me just very briefly share two paragraphs from the editorial and then ask how you think we need to respond to it.

Quoting from the editorial, “President Obama headlined his first trip to sub-Saharan Africa last July with a stop in Ghana. Speaking to the parliament in Accra, Mr. Obama praised the country’s growth and its example that ‘development depends on good governance.’ Eight months later, Ghana’s Government is turning the nation into a cautionary tale for foreign investors.”

Then the editorial goes through a variety of case studies of capricious government meddling in a variety of potential deals. And it concludes, “Attracting foreign investment has been a pillar of Ghana’s development strategy, with the government pitching itself as the gateway to West Africa. Spooking new investors by repudiating contracts will rapidly ruin the country’s prospects for long-term development. The Obama administration has so far been silent on the shadows now haunting the country it heralded as a source of hope and leadership in Africa. Getting the country back on the track of moderate good governance and respect for the rule of law would be an important example to set on the poorest continent.”

Now, I am not making a judgment on the intricacies of this issue, but I wanted to know whether you are aware of these concerns.

And what is the proper role of the MCC in helping the Government of Ghana correct the perception that it is mistreating foreign investors?

Mr. YOHANNES. Thank you very much, Mr. Congressman.

I am very much aware of the incident. I have spoken to the Blackstone Group about this incident. I also have spoken to our Ambassador in Ghana. I have also spoken to a lot of our associates at the Millennium Development Agency in Ghana.

Now, it is a matter of commercial complaint that is being handled by the Embassy, by the proper department at State Department. And, you know, our hope is that, at the end, the decision that will be made will satisfy both the country and the companies that have been impacted by it.

But we are actively following the developments, and definitely it is a concern to us. And as soon as a decision is made, we definitely will take into consideration the results.

Mr. ISRAEL. Well, I appreciate that. And I think you have heard that this is a very significant concern on both sides of the aisle. And, clearly, when you have patterns of behavior by MCC partners that undermine the performance and chances for compact success, it needs to be a matter of urgent focus. And so I hope to engage with you. And I am pleased that you are aware of this and you believe it needs to be addressed. And I look forward to continue to partner with you on it.

Mr. YOHANNES. Thank you.

Mr. ISRAEL. I yield back, Madam Chair.

Mrs. LOWEY. Thank you.

But, before I go to Mr. Rehberg, since you didn't use your whole 5 minutes—maybe you did; the red light is on—I just want to clarify—and this is the issue that three of us have brought out. When there is a political coup, like in Madagascar, the guidelines are very clear. But there are no guidelines that address corruption. And Johnny Carson has been concerned about that, we have been concerned about that. And, frankly, if there are no guidelines, this program is not going to continue to exist because it will not be tolerated.

So I think it is essential that you address this committee, if not today, another day. Again, with a political coup, you know what to do. But when money is being extorted from a private investment group and political corruption continues, or if it was not there before when the compact was given, it is alive and well now, there has to be guidelines to deal with it.

Mr. YOHANNES. I agree and support your statement, Chairwoman Lowey. You know, corruption is one area that we take very seriously. And if a country fails the corruption indicators, then the board has an option to terminate or suspend the compact.

I mean, the countries we work with, when you look in terms of the corruption indicators, they all have passed. Like, you talked about Senegal; I know you said Senegal earlier. Senegal passed the corruption indicators when Senegal was selected to get this program.

Now, we are monitoring the situation not only by the indicators but also on the ground, working with our embassies. Again, if we see information that impacts otherwise, I just want to guarantee

you that the institution and board is ready to make a decision. If we have to terminate, we will terminate. But, again, the scenario, we monitor it on almost a daily basis.

Mrs. LOWEY. Well, if you can provide some information to this committee. This is serious enough so that Assistant Secretary Johnny Carson has made visits, has discussed it. We have seen—I mentioned the problems in Ghana.

Look, in Kenya, they had a threshold compact. They haven't gone on to the next step. And I was there not too long ago with Secretary Clinton, who was very eloquent in her discussions of corruption.

But if you can get back to us as to what is happening in Senegal, and what is happening in Ghana. I think we need to put very clear rules in place. And in Ghana, when you see extortionist practices by members of government, this is incredibly disturbing.

Mr. YOHANNES. Madam Lowey, in fact, we are sending a high-level delegation team to Senegal next week, both from MCC and the State Department. We are coordinating our efforts in Senegal.

So, we are monitoring the situation on almost a daily basis. Of course, when you have reports like what happened in the last couple of months, it doesn't make us feel comfortable. I addressed our concerns with the President about 2 or 3 months ago, and I do have a response from him.

We are coordinating all of our efforts with the various agencies within our government. And, again, I think next week or the following week, a high-level delegation from State as well as from MCC is going to address our concern to Senegal.

Mrs. LOWEY. Thank you.

Mr. Rehberg.

Mr. REHBERG. Thank you.

Obviously, the committee is very supportive of what you are attempting to do. The criticism is probably procedural. I guess one of the questions I always want to ask is, there anything that Congress is doing that makes your job more difficult, whether it is in the authorization or the timing of appropriations?

When I say the timing, I was in Senegal years ago when they wanted to move the town. As I understand it, that is no longer the project. So sometimes time is a good thing because it allowed them an opportunity to refocus their priorities. Other times, something might have gotten done quicker where there wasn't the turmoil within the government because, if the project had gotten done quicker, the economy could have turned around quicker and they wouldn't have the difficulties.

So I want to reflect back on us first. Is there something the Congress could do to make your life easier?

Mr. YOHANNES. Thank you very much, Mr. Congressman.

The answer is yes. We have requested your approval for concurrent and longer compacts. The current process used today is, a country can only get one compact for every 5 years. So it takes such a very long time, it takes anywhere from 2 to 3 years to develop a compact. Of course, it takes 5 to 5½ years to get it implemented. So—

Mr. REHBERG. That is not as a result of them taking the time to establish their priorities, their vision, their strategy.

Mr. YOHANNES. Precisely.

Mr. REHBERG. They, in many cases, could get it done quicker, it could be approved quicker, and then could be funded quicker.

Mr. YOHANNES. If we get the concurrent compact approval from Congress and we don't have to wait for 2, 3 years to develop the entire compact, we could fund for those projects that have already completed compact development and feasibility studies, and we could deploy the funds much faster.

Mr. REHBERG. Let me use Africa as an example. Because many of the governments are new and there are emerging countries, and they have term limits. And the one thing that we know, it is called the two term limits. The new leader in the country feels like they are the most important leader, so they want to break the Constitution and get that third term.

If they could complete a project within their term of office, would that help? Meaning, Congress speeded it up a bit, made sure that the compact gets done within the 1, 2, 3-year period? Would that help? Because if we agreed to a compact based upon the government that is in place and then you have an election and you get somebody with an entirely different vision that doesn't agree, that is where your problem would exist.

Mr. YOHANNES. Well, fortunately, we have not had difficulties because a government changes. In fact, El Salvador was a classic example. We signed the current compact with the previous regime, and this regime was elected last year, and they have been very supportive and they are abiding with many of our principles.

I think where we have had some challenges has been the amount of time. It just takes so long, the time it takes to develop a compact, which means that we are not able to deploy the funds to be able to have a tremendous impact much faster than the current structure.

Mr. REHBERG. So your request of the committee is to——

Mr. YOHANNES. Give us the permission to do the concurrent compacts, which means we could do the projects much faster, instead of waiting for five different projects to be included under one compact.

Thank you.

Mr. REHBERG. Thank you, Madam Chair.

Mrs. LOWEY. Mr. Schiff.

Mr. SCHIFF. Thank you, Madam Chair.

Mr. Director, there were a couple of questions I wanted to ask you—one country-specific, one more general.

The country-specific question involves Armenia. The compact with Armenia has been suspended a couple of times related to democratic governance issues, media freedom among them. The most recent suspension was on June 10th of 2009. And there is a notation in the CRS report that at least one board member noted the suspension was in effect a termination because the work, if re-approved, couldn't be completed within the compact lifespan. The compact was a 5-year compact that began in November of 2005, so conceivably it could go through November of this year.

Has there been any change in the governance issues vis-a-vis Armenia? Is there any potential of any resumption of the road con-

struction work under that compact? If you could let me know the status on that.

The more general question I have relates to the State Department and the quadrennial review that it is undertaking. There have been statements by the head of policy planning, by the Secretary herself, indicating an elevation, as they describe it, of development alongside diplomacy, which suggests some merger of the diplomatic and development missions.

Have you been playing a role in the formulation of that quadrennial review? Do you see development being subsumed as a vehicle of diplomacy, or how do you see that shaking out?

Mr. YOHANNES. Thank you very much, Mr. Congressman.

In terms of Armenia's concern, Armenia is in its fourth year of implementing the compact. The \$65 million that was designed to fund the road project is still on hold. However, the other funds that are invested in agriculture are doing extremely well. We have trained over 30,000 farmers, and we are in the process of rehabilitating 17 different pump stations. And we have about \$4.5 million outstanding through out micro finance to Armenian families.

And 25 kilometers of road have already been completed. And the designs for the new road, that we paid for, I understand construction is going to be financed by the World Bank.

Now, when you look in terms of governance, particularly in terms of human rights——

Mr. SCHIFF. Sir, before we move on, how much of the compact is remaining?

Mr. YOHANNES. About \$65 million is still on hold, the money that was designed to fund the road project.

Mr. SCHIFF. The road project.

Mr. YOHANNES. Correct.

Mr. SCHIFF. And is there any change in the governance issues that concern MCC? Is there any potential release of those funds to undertake as much of the road work as possible before the compact is terminated?

Mr. YOHANNES. If you look, the policy indicator for governance in Armenia, actually, the last 3 years it has gotten worse than it was before. So it is still a concern. We are monitoring it very closely. And if, in fact, we see some significant changes, then I think the board would make the proper decision. But right now, it is going the other way around.

Mr. SCHIFF. Well, I would love to follow up with you on it——

Mr. YOHANNES. Okay.

Mr. SCHIFF [continuing]. In terms of specific issues that MCC is looking at to see change in Armenia.

And on the other question, Mr. Director?

Mr. YOHANNES. Okay, on the QDDRs and the PSDs, they are both studies, one conducted by the White House, the other one being conducted by the State Department, we have been very active at the table, providing lessons learned these last 5 years. You know, hopefully the results will come sometime this year. We really have not seen the final result. But our people, both our chief economists and our experts in the food security area, have been involved heavily in the last few months, really providing a lot of information

that has worked for us at MCC. So I am just waiting, like you, to see the final results, Mr. Congressman.

Mr. SCHIFF. Do you see any change in the selection of countries being more a function of diplomatic initiatives or that the choice of development missions within an MCC compact might be more heavily influenced by diplomatic considerations?

Mr. YOHANNES. Again, what I am hearing right now is that a lot of our principles are emerging as priorities for this administration—the country ownership, results, accountability, you know, all of the principles that we argue for and that we are committed to.

Mr. SCHIFF. I think I am out of time, Madam Chair. Thank you.

Mrs. LOWEY. Thank you.

We are going to start a second round.

Ms. Lee, if you are ready, you can proceed with your question. Thank you.

Ms. LEE. Thank you, Madam Chair.

I apologize for being late. I had three hearings at one time. But thank you. I really wanted to be here for this. So if my questions are redundant, I apologize. But it is good to see you. And congratulations again.

Mr. YOHANNES. It is good to see you, Congresswoman Lee.

Ms. LEE. As you know, I have been extremely concerned about the involvement of minority and women-owned businesses in MCC's compact agreements or at least in terms of supporting the efforts that take place, recognizing that primarily MCC provides for opportunities for local entrepreneurs in host countries. But I do know, and I have visited, actually with our chair, several countries and saw some MCC compacts being executed with U.S. partners. And I have not seen any people of color from our own country involved in some of these projects, wherever U.S. involvement is required.

So I would like to ask you about how you are working. Do you work with SBA? What your procurement arrangements are when you hire people, like auditors, accountants, or whomever you hire to do whatever kind of work with MCC, how you are moving forward on that. As well as your workforce, how diverse is MCC's workforce?

And, finally, I would just like a little bit of background on the compact, I believe with Malawi, that you are in the process of working through at this point. I am interested to know that, and how women are integrated and gender considerations as part of the compact programs as a given, you know, an integral component of how you negotiate these deals.

Mr. YOHANNES. Thank you very much, Congresswoman.

In terms of employment at MCC, 50 percent of our employees are women and about 20 to 25 percent are people of color. And they are all well-represented at every level.

In terms of our business procurements, approximately 40 percent are primarily to small businesses. And, within that group, about 15 percent are primarily to minority-owned businesses.

Ms. LEE. Fifteen percent?

Mr. YOHANNES. Fifteen percent.

I am committed to expanding opportunities to small businesses and minority-owned businesses. So we are going to do a very ag-

gressive reaching out to a lot of the small businesses as well as the various community groups that could help us to bring a lot of businesses from the minority communities. You know, it is 15 percent, but I would like to see it much higher at some point. So I am committed to make sure that we reach out to every available business that could be a potential partner in this area.

Ms. LEE. How are you doing that? Do you have a specific outreach effort? How are you operationalizing that effort?

Mr. YOHANNES. We reach out primarily through our Web sites. But also, we are going to be working very closely with the Constituency for Africa. That is an organization that really promotes businesses. And also with other groups, as well, making sure that we reach out to those businesses.

I think the best and only way, in addition to the Internet, is to talk to the various groups that exist in our country that are Hispanic business associations, women business associations, African American business associations, Asian business associations. So we tend to be very active in sending the message so they can participate when we have the procurement processes.

Ms. LEE. Well, Madam Chair, let me just ask you—I don't know many members of the Congressional Black Caucus who have gotten any information about what you are doing. And so we need to figure out a way that, at least we know when you are reaching out to our constituency businesses, that we can help, because I haven't found any members who know that.

Mr. YOHANNES. I appreciate that. And I will commit to you that I will work with you and with congressional members.

In terms of Malawi, it is still in the process. You know, we are going back and forth. The expected funding is going to be primarily to rehabilitate the energy sector. In fact, you know, the acting vice president is going back again next week to Malawi. Compact development has taken a little bit longer. You know, like many of these compacts, they have little snags. But we do expect to sign Malawi in the fourth quarter or the beginning of next year.

Ms. LEE. And women?

Mr. YOHANNES. With gender, you know, that is an area—in every single project we do, it includes gender integration. In fact, I have asked Cassandra Butts, who came from the White House, who was previously the deputy counsel, to take the lead in that area. And we are committing every resource we have to make sure we have consistency in every different country.

When I first came here about 4 months ago, I was told by a group that our gender integration programs may not have been consistent in some countries. We are providing the technical training as well as the financial resources that are required to make sure we have people that really understand and could monitor it and could implement it extremely well.

Ms. LEE. Thank you.

Thank you very much, Madam Chair.

Mrs. LOWEY. Thank you very much.

And I just want to make a quick point relevant to your point, in that we urge you to carry out consultations in the country with the diverse group of civil society organizations, including women and minority groups, and consider their meaningful input when you are

developing a compact. I think it is very important to reach out to the diverse groups in the country when you are putting the compact together.

Mr. YOHANNES. Madam Chairman, I agree and support that 100 percent. In fact, every single compact, if it does not have civil society, NGOs, businesses, and others, they wouldn't consider the project as part of the compact. So it is a requirement within our system to making sure that civil society in that country is consulted before it becomes an agreement. So I support it 100 percent.

Mrs. LOWEY. Ms. Granger.

Ms. GRANGER. Thank you.

You can see there is a great concern about corruption in the countries, not in the MCC but in the countries you are dealing with. And the importance is that, if there is a history of corruption or a report of corruption, what safeguards are being established.

I would ask you, what kind of cooperation do you receive from local communities to fight corruption? And does there need to be more outreach and ways for community members to anonymously report incidents of fraud or corruption?

How are you working with those communities and with those compact countries to establish tougher anti-corruption safeguards so that, when we have this hearing the next time and have a follow-up, then we will have more assurance that that is occurring?

Mr. YOHANNES. We work with a number of groups. Number one, we work very closely with the State Department, particularly with embassies in those countries, to gather a lot of information, especially as far as corruption is concerned.

We also work very closely with NGOs in those countries. And, also, when I was in Cape Verde, for example, and Ghana, I spent some time with the business community independent of the government and was asking them questions specifically if they were concerned about corruption or corrupt practices in those countries.

And, of course, we put a lot of emphasis on the corruption indicators that are provided to us by a third party, which comes from that group interviewing the civil society, businesses, and others in those countries.

So we have a lot of information we gather. Again, having said that, I believe there could be other opportunities that maybe I have not thought about in the past that we would be more than happy to work with you on.

Ms. GRANGER. Thank you.

Mrs. LOWEY. The violent events of the last week in Kyrgyzstan are of great concern to the committee. And it is my understanding that MCC is currently engaged in a threshold program in Kyrgyzstan, and one of the stated reasons for discontent in Kyrgyzstan was the awareness of corruption in government. Given the threshold program's focus on corruption over the last 2 years, it leaves me a bit uneasy about the effectiveness of this program.

First and foremost, have the events of the last week compromised the security of MCC employees and implementing partners? And what effect will these events have on the program in both the long and short term? And, finally, is MCC considering terminating the program, given the current situation?

Mr. YOHANNES. Thank you, Chairwoman Lowey.

We had a 2-year threshold program with Kyrgyzstan for about \$16 million, primarily intended to strengthen the criminal justice and the law enforcement sections of that country. The program comes to an end in June. We are currently working with the State Department and National Security Council about the situation before we take any kind of action. And, as soon as we get the green light, we will be able to make the final decision in terms of how to proceed.

Mrs. LOWEY. Thank you.

Mr. YOHANNES. But the program comes to an end in June. And, at this time, we have no plan to extend the program beyond June.

Mrs. LOWEY. Thank you.

Mr. Rehberg, do you have a question?

Mr. REHBERG. Yes, one quick question.

If you were to give us a couple of success stories of completed or nearly completed or will-be completed and never going to ask for money again, what two countries would you write up as a success, so that we could look at some statistics and a little bit of the history and figure out where they are and talk to USAID and such? Could you come up with a couple?

Mr. YOHANNES. I could give you a couple. But the most frequently asked questions when I speak to many of those countries is the fact that they all want a second compact. So I have to be very careful. If I tell you the country, then tomorrow I am going to be asked for a second compact.

Mr. REHBERG. Sure.

Mr. YOHANNES. But definitely Cape Verde was one of the countries that we selected to be eligible for a second compact. And if you look in terms of what has been accomplished in that country, it has just been phenomenal. I went and inspected the port which will be completed sometime in September, which will open a lot of opportunity for that country for trade and investments.

Projects in Georgia are doing extremely well. Projects in Ghana, even though there were some concerns recently because of some corruption issues that were discussed, the progress has just been phenomenal. El Salvador is continuing to do extremely well.

Mr. REHBERG. Okay. I am not going to suggest that all projects must end, but I don't believe that it was ever intended that it was going to be an ongoing foreign affairs appropriation to these various countries. Is there an ending date?

I know the compact comes to an end, but if the country has the opportunity to come in—I mean, I can always find more money in Montana year after year after year. That doesn't mean that eventually we shouldn't stand on our own two feet and say, enough is enough.

What is the plan for ending projects, just saying "El Salvador, we love you, but you are on your own now"?

Mr. YOHANNES. That is a good question, Mr. Congressman.

And my objective is to make sure many of those countries replace our aid dollars with investment from the private sector. I believe—

Mr. REHBERG. Okay. The question then becomes, are your criteria objective or subjective? Does the board of directors have a threshold that is available to us? Is it advertised, or is it just a be-

hind-closed-doors board of directors decision to consider a second compact or a third or a fourth or a fifth?

Mr. YOHANNES. When you consider a second compact, I think you have to do a couple things. Number one, the countries themselves must continue to perform extremely well in all of the policy indicators. That is number one, all right?

Before we can make a decision to do second compacts, we look in terms of the first 5-year investment's ability to accomplish its intended mission or goals. So it is a very, very good set of processes before a country is selected or eligible to get a second compact.

And in the last 5 years, we had five countries that were graduated from low-income countries to LMIC. By definition, some of those countries at some point would be able to replace our aid dollars with private-sector investment. So it just varies from country to country.

Again, our hope is that many of those countries will replace our investment dollars with private-sector investment at some point in the future. And I hope at some point in the future MCC will not exist and all our investment will be replaced by the private-sector investments.

Mr. REHBERG. Well, probably that won't be possible because there are so many countries that probably need the initial help. It just seems like right now we are spending a lot of time trying to figure out how to save the countries that are in or how to fully fund those that currently exist, and it would be nice to have a strategy to end so we could bring in more countries, as opposed to just continuing to support those that are successful. And there is nothing like success breeds success; however—

Mr. YOHANNES. Well, some of those countries that graduate definitely would be candidates for other funding in the future. But we need to continue to work with some of the countries that have done a great job in terms of improving their policies and so forth.

But we can't predict in terms of which countries are going to be next for getting a second compact. And as much as possible we are working in cooperation with other aid agencies within our government, as well as continuously encouraging the private sector to make sure they consider making investments in some of those countries, so at least the burden would not be on American taxpayers in the long term.

So it is going to vary from country to country, Mr. Congressman.

Mr. REHBERG. One last question: Can you name the one thing that is the same in all the successful countries? Is it agriculture? Or is it transportation? And I know you would like to say, "Well, in one case it is a port, and in another case it is a railroad." But are there some things that are being funded that seem to be an overriding theme for success?

Mr. YOHANNES. Approximately about 50 percent of our investment dollars are primarily invested in agriculture. And that seems to be an area where it is providing a lot of food security for a lot of our partner countries. In addition, all together, when you include agriculture, infrastructure, it is 65 percent of our investment. That has been the case in the past.

However, we are looking at other areas where our investment could have a tremendous impact much faster and more quickly. We

have a lot of technologies that could be employed in many of those countries. So, as we consider Indonesia and others, we are speaking to those countries to consider other alternatives in addition to the traditional investments that have been made. So——

Mr. REHBERG. But agriculture would probably be your answer, or something affiliated. If it is a railroad in Mongolia, it probably moves agricultural products.

Mr. YOHANNES. Precisely.

Mr. REHBERG. And if it is Benin and it is the port, it is probably moving agricultural products.

Mr. YOHANNES. That is correct.

Mr. REHBERG. Okay. All right. Thank you.

Mrs. LOWEY. I want to thank you, Mr. Yohannes, for engaging in our committee. Given your focus on agriculture, perhaps you can share with us the coordination between the MCC and Cheryl Mills's efforts to coordinate, the whole foreign aid apparatus and our other agencies in government and focusing them on agriculture.

Secondly, I just want to say that this committee has been very committed to the MCC, and we understand that the MCC has the great potential to lift people out of poverty. And because of our support, this is why we have been so concerned about the corruption and the stories that I know don't please you or us on this committee. And we hope to work through them and have greater dialogue with you about how to move forward. We know that you have done excellent work in building schools in addition to agriculture and roads, and we look forward to the dialogue.

In closing, well, perhaps you can just address the idea of coordination among the MCC and the other efforts that Cheryl Mills is leading with regard to agriculture. And then I will turn to Ms. Lee.

Mr. YOHANNES. Okay. Thank you very much.

Chairwoman Lowey, in terms of corruption, I know we talked about it several times, but I just want to point out that we have a new fraud and corruption policy at MCC. That was just implemented before I just got there, so it is something new. And then, also, we have country-by-country fraud and corruption assessments, which has been ongoing for some time. And all compacts have civil society stakeholder committees that do oversight. And, also, we have a system in which we receive anonymous tips about corruption from many of those countries.

So I just want to add to the record that, in addition to my earlier statement, these are additional processes that have been in place for some time, even before I got to MCC.

Mrs. LOWEY. Before you get to agriculture, I did want you to talk about that, because 50 percent of your work is focused, as you said, on agriculture.

I think the issue is the MCC has clear guidelines related to a political coup, and guidelines related to corruption are fuzzy. And because of this committee's support for the MCC, we would like to work with you and hear more about how you are going to face those challenges.

So, if you could just address the coordination on agriculture between the MCC and Cheryl Mills's effort, I think that would be helpful. And then I will turn to Ms. Lee.

Mr. YOHANNES. Okay. Thank you, Madam Chairwoman.

We have been working in coordination with Cheryl Mills's office. In fact, Kristin Penn, who is MCC's agricultural expert, she is on loan from MCC to the State Department. And because of lessons learned the last 5 years, we have done so much in that sector, the administration is—we are assisting the administration in terms of the broader response in food security. And so we are continually working with the State Department.

Again, like I said earlier with our experiences in Ghana and Nicaragua and other places, we are seeing a tremendous progress, not only farmer training but also they are using our education and training in which they are producing much higher quantities. And also we have set aside something like 51,000 hectares of agricultural land primarily to be used for high cash-crop commercial farming.

In Ghana alone, for example, where I just was 2 months ago, I was at a commercial pineapple farm in which we provided the cold storage, where Ghana is now exporting a lot of delicious pineapples to Europe, earning a lot of precious foreign currency reserves.

So it is working. We are providing what we have learned the last 5 years to the administration.

In addition to the projects we have become extremely effective in making sure that both men and women are benefiting from our investments in agriculture. Again, when I was in Ghana 2 months ago, I was fortunate enough to pass out land certificates at a ceremony in which both men and women 50 percent benefited from our investments. So not only are we able to see increases in incomes of many of the farmers, but also we are seeing how our gender policy is having a tremendous impact.

Mrs. LOWEY. Again, before I turn to Ms. Lee, Ms. Lee and I were in Ghana about 2 1/2 years ago, saw that same very important and exciting pineapple plant. And I look forward to the day when you or Ms. Lee or I can go back and we will see many exciting businesses sponsored and encouraged by the MCC.

Ms. Lee?

Ms. LEE. Thank you very much, Madam Chair. And that was a very exciting trip, and I concur with the chair, in terms of a return to see these investments taking off and doing what they were intended to do.

And agriculture and infrastructure programs have been, really, the centerpiece, I know, of the MCC. But also now I want to find out as it relates to basic education and health projects, how are they given equal consideration—or are they now—in MCC compacts?

I know you revised the guidelines for—it is the economic and beneficiary analysis to now use health and education projects as examples to demonstrate positive economic rates of return. So have you seen any increased interest in education-based projects in compact proposals? Are countries and people aware that this is an indicator on the—what is it called, the “investing-in-people basket”? And what are those indicators and how are they scored, as it relates to the health- and education-sector projects?

Mr. YOHANNES. Because all of our projects are country-owned from design to implementation, and to the extent a country identi-

fies what appears to be their major constraints for economic development, those are the projects we work with.

So, for example, in terms of health, we have only done two different projects. One is in Lesotho, where we have about 24 percent of the population infected with AIDS. So we are working in coordination PEPFAR, which we are building the clinics and PEPFAR is really providing the medical supplies.

And our most recent compact was with Mongolia in terms of health, primarily where they have huge problems with diabetes and high blood pressure, so we are partnering with them. But many of the health concerns were addressed primarily in the threshold programs where we provided the funding for the immunization of children.

But as long as a country considers a sector to be a priority and to the extent that it works, we are willing to work with them. But, historically, it has been much more easier to get funding for health and education from other sources.

Ms. LEE. Sure, but countries are aware that this is part of it?

Mr. YOHANNES. Definitely. Definitely. We have no sector requirements, no earmarks. You know, everything that was considered to be a major economic constraint is what we are working with the countries on, absolutely.

Ms. LEE. Okay. Thank you.

Mr. YOHANNES. Thank you very much, Congresswoman Lee.

Mrs. LOWEY. Mr. Yohannes, I thank you again for your time and appearing before this committee.

This concludes today's hearing on the President's fiscal year 2011 request for the Millennium Challenge Corporation. The Subcommittee on State, Foreign Operations, and Related Programs stands adjourned.

Mr. YOHANNES. Thank you very much for having me.

Mrs. LOWEY. Thank you.

**QUESTIONS FOR THE RECORD SUBMITTED
BY CHAIRWOMAN LOWEY
FOR THE MILLENNIUM CHALLENGE CORPORATION HEARING
APRIL 14, 2010**

Second Compact in Cape Verde

MCC has requested a second \$100 million country compact for Cape Verde in the 2011 budget request. If signed, Cape Verde would become the first country to receive a second compact.

- What criteria were used to determine that Cape Verde was eligible for a second compact? How did Cape Verde measure on those criteria?
- Cape Verde is at the higher end of the “lower middle income category” with a gross national income level of \$3,130 per person. Were the investments made through the first compact not sufficient to increase Cape Verde’s economic growth?
- The country compact for Cape Verde concludes in October 2010. Will you be able to evaluate the effectiveness of the first compact before entering into a second?
- Finally, as more countries end their first compacts, can we expect second compacts to become the norm?

Second compacts are consistent with MCC’s mandate to work with partner countries committed to long-term growth and reducing poverty. In MCC’s selection of all potential partners, MCC considers a country’s policy performance, the opportunity to reduce poverty, and the funds available. For second compacts, we also consider how well the country performed in implementing its first compact.

We believe that second compacts will provide additional incentives for countries to improve policy performance as they will be required to continue to pass the selection indicators. Since the MCC indicator criteria were initially established, they have become more rigorous, particularly due to the addition of new indicators in FY08. In addition, many current compact partners have graduated to the lower middle income country category during the course of compact implementation and now face higher standards than they did when they were first selected. This is the case for Cape Verde. Because selection for second compacts is competitive and not automatic, countries that already have compacts are incentivized to implement their compact programs more effectively, achieve results, and pursue continued policy performance.

MCC does not intend to have open-ended commitments with partner countries. We will assess the appropriate nature of each partnership by judging the sustainability of our investments and the countries’ ability to leverage diversified public and private resources.

In December 2009, MCC’s Board of Directors selected Cape Verde as the first country eligible to begin development of a second compact. The Board recognized that Cape Verde has been an

economic reformer over the past two decades and has consistently displayed good economic and political governance. When Cape Verde was first selected for MCC eligibility, it was a low income country (as defined in MCC's governing legislation); Cape Verde transitioned to the lower-middle income country category soon thereafter. Since transitioning to the lower middle income country category five years ago, the government of Cape Verde has worked hard to raise its indicator performance to meet the standards of its more competitive peer group, and now passes the indicators in this higher income category. Cape Verde has undertaken reforms to streamline business registration, and has worked to improve the accuracy of its indicator data. These efforts are now reflected on Cape Verde's MCC scorecard.

Cape Verde is successfully implementing its first compact:

- 40.5 kilometers of rural roads have been upgraded, connecting coastal and inland villages with larger population centers and markets.
- Four planned bridges have been constructed; making roads that are passable year-round, even in the worst rains.
- Together, these projects will benefit an estimated 73,000 people, reducing their transport costs and increasing their access to markets, urban centers, and social services.
- 58% of the construction work for the MCC-funded port project is complete.
- The Government has adopted a number of policy reforms related to the compact program, including establishing a road maintenance fund financed by user fees and fuel taxes to ensure sustainability of the road investments, adopting microfinance legislation, and establishing a watershed management plan to put local groups in charge of managing scarce resources most efficiently.

Oversight

The Office of the Inspector General released its semi-annual report and found approximately \$1.4 million worth of questionable costs by MCC implementers.

- What steps has the MCC taken to review these costs and determine their appropriateness?
- With the small MCC staff in compact countries, how does MCC provide the necessary oversight of projects?
- What processes are in place to ensure that all equipment and assets in MCC compact countries are properly disposed of upon the conclusion of a compact?

MCC's model, including its small staff footprint in-country, has required the development of an innovative oversight structure to keep up with the pace of implementation. MCC regularly evaluates programmatic and fiduciary risks in our partners' compact activities that might require MCC oversight intervention. This intervention takes two forms. The first is a requirement that certain implementation actions, such as procurement documents and environmental management plans, must be reviewed and approved by MCC *before* the partner country can proceed. MCC

considers relevant input from technical, procurement, and fiscal accountability experts under the supervision of MCC staff based in-country. Procurement actions and payments are executed by independent procurement and fiscal agents that are contractually obligated to follow MCC policies and procedures, including verification of required MCC approvals.

The second form of intervention is MCC's coordinated reviews examining implementation actions after they have been taken. Some examples include procurement process reviews, technical audits by MCC-contracted independent engineers, and announced and un-announced project site visits, as well as external financial audits conducted by independent, OIG-approved auditors every six months.

Findings from these reviews identify areas where further MCC action is required. In the case of financial audits, MCC requires immediate corrective action from the local implementing entities (MCAs) to address any findings, including where auditors have questioned certain costs. "Questioned costs" include expenditures that were judged to be unreasonable or unallowable under the MCC Cost Principles, as well as expenditures that were not properly documented at the time of payment. For each questioned cost, MCC examines the individual circumstances of the expenditure and determines whether grant funds were used appropriately. In instances where they were not, MCC has required that the compact country government return the funding to MCC.

MCC is committed to ensuring that compacts are closed in an orderly manner. Given the risks involved at the end of any grant program, MCC has been pro-active in defining its oversight role in the process. A key component of the closure process is a requirement that the MCA prepare, and MCC approve, a closure plan a full year before the compact end date. The MCA must put forth a plan for the disposition of all program assets, working from the principle that no program asset may be used for the personal gain of any individual involved in the implementation of the compact. Lessons learned in the initial compact closures will inform further evolution of this process.

Gender Integration

Through its comprehensive gender policy the MCC has positioned itself as a leader in gender integration among international development agencies. For the MCC to effectively implement its gender policy, however, four things are needed: leadership from the top; expertise; systems to ensure that it is implemented consistently; and accountability throughout the agency and programs.

- In the context of the 2011 budget, how will resources be dedicated to ensuring that the MCC will consistently follow through on implementing the gender policy at every stages of compact development and implementation and that staff and countries will be held accountable if the gender policy is neglected?

- The gender policy outlines the responsibilities of both country governments and the MCC in ensuring that both women's and men's needs and priorities are addressed in compact development, implementation and monitoring and evaluation. Currently, the MCC has only a few staff people in charge of addressing this very large mandate. In fiscal year 2011, how will the MCC allocate resources towards addressing the current shortfall in capacity in order to meet requirements set forth by the gender policy?
- How has the gender policy improved the effectiveness of aid? How, if at all, has the MCC's approach changed recipient country mindsets about U.S. development assistance?
- What percentage of country compact beneficiaries are women and what special efforts are in place to ensure that all programs reach women and girls?

MCC is committed to building upon our leadership among USG agencies in furthering gender equality in development and ensuring that gender considerations are central not only to the design of a program but also throughout program implementation. Gender analysis is a tool for ensuring that all development projects that impact people take into consideration gender differences and inequalities in design and implementation. Aid effectiveness is improved when both women and men are able to participate and benefit from development investments. We already know that women are more likely to re-invest their incomes in their families, so ensuring that women's incomes are increased will increase aid effectiveness.

MCC has made a renewed commitment to gender integration, building on our good work of the past to ensure that we have the capacity, resources and accountability mechanisms needed. Cassandra Butts, a Senior Advisor at MCC, will be engaged in directing our efforts as MCC implements a strategy to strengthen both our own and our country partners' work.

MCC is following up on an internal gender review to implement an operational strategy to further strengthen our commitment to gender integration. First, although responsibility for implementing MCC's gender policy has never been limited to gender specialists, we are adding staff to enhance our technical expertise in social and gender assessments; this will allow MCC to better assist partner countries to develop and implement compacts. MCC is revising our guidance to partner countries and ensuring that our partners also have gender expertise on staff. MCC is also expanding training, incentives structure, and other capacity-building activities for MCC staff and for our country partners.

In accordance with MCC's gender policy, MCC monitoring and evaluations plans call for targeting and disaggregating key outcome and impact indicators by gender. Through beneficiary analysis, MCC measures the share of female participants in each activity and the extent to which gender differences are expected to arise in the likely distribution of benefits from each project. The current data on record estimate an average of 52% of project beneficiaries as female.

Legislative Changes

Reauthorization language is being considered to allow for longer compacts, potentially up to 7 years and concurrent compacts, which would allow MCC to sign smaller project compacts sequentially in order to ensure continuity of program support.

- Can you explain why these authorities are necessary?
- How do you intend to use these new authorities?
- Specifically, your request for Indonesia assumes authority for concurrent compacts. How would this proposal be affected if these authorities are not approved by Congress?
- Finally, the benefits of the MCC model are the thorough process partner countries undertake to become eligible for compacts and the finite time frame to implement projects. If given this authority for smaller concurrent compacts and the authority to extend compacts, how will MCC programs differ from USAID development programs?

MCC believes the authority to sign concurrent compacts as well as, in limited cases, extend compact terms to no more than seven years will help the agency be more efficient and innovative.

With concurrent compacts, as part of a larger, cohesive framework, MCC could move forward with projects that are investment-ready, instead of having to put several projects at various stages of readiness into a single compact or delaying compact signing for a promising but less developed project. With smaller, staggered agreements, local implementing units will be better able to build management capacity with early projects and ease the current burden of managing large, complex compact programs with projects that all commence on the same day and end on the same day. The use of this authority would be limited, based on the prospect for innovative projects with substantial impact on poverty, but that need more time for thorough development.

Concurrent compacts would allow for more certainty in the budget process, especially in light of constrained resources; concurrent compacts would also serve as an added incentive for ongoing policy reforms in partner countries and allow for more creative implementing partners. Concurrent compacts would make it easier to pursue innovative program design and implementation mechanisms.

MCC believes the firm deadline for a program term is very important; however, there are certain important infrastructure projects, for example, that cannot be done in the five years currently allowed. This assertion is borne out by the experience of major bilateral and multilateral donor agencies, as well as experience in the US with large projects. Authority for longer compact terms would permit MCC to undertake these projects in a limited number of cases, and to engage more fully in associated policy and regulatory reforms that require a longer lead time to implement, and increase the potential to meaningfully partner with the private sector for investments that require more than five years to complete.

MCC has requested funding for Indonesia in Fiscal Year 2011 with an expectation of utilizing concurrent compact authority. Indonesia is the fourth most populous country in the world, and has more than 100 million people living on less than \$2 per day. Indonesia is unlike any previous MCC partner country, with greater needs and higher absorptive capacity, but also a more challenging implementation environment. For a country as large and diverse as Indonesia, sustainable impact requires careful strategic planning and creativity, and a solid level of preparation to manage implementation risks.

If these requested authorities are not approved this year, MCC's compact with Indonesia will be adversely impacted because MCC will have to hold the compact until further funding is available or will have to fund a much smaller program in Indonesia and thereby diminish the opportunity for sustained impact.

Rather than making us more like other donors, MCC believes these new authorities will allow us to further differentiate ourselves and to be more innovative in our work with partner countries. After several years, MCC's implementing experience provided MCC unique insight into the challenges of country-led design and program implementation. With concurrent and longer compact authority, MCC can continue to work with countries in a flexible and productive way, maximizing the opportunity for success in poverty reduction and sustained economic growth.

**FY 2011 Budget Request
Questions for the Record
Submitted by Ranking Member Kay Granger
for Daniel Yohannes, Millennium Challenge Corporation**

Private Sector & the MCC

While foreign assistance is key to laying the foundation for economic growth, trade and investment are the only long-term solutions to providing jobs and improved standards of living over the long term.

- 1) First, please discuss, in your opinion, why the foreign aid community has failed to grasp the role that the private sector can play in the economic development of African countries and other poor nations;
- 2) Please discuss in detail the opportunities you have identified at the MCC to partner with the private sector in compact implementation or other roles, and lastly;
- 3) What specific challenges does the MCC face by involving the private sector more in its programs?

MCC's strong interest in encouraging MCC partner countries to involve the private sector in the delivery of MCC's aid is part of a broader trend within the foreign assistance community. This trend is reflected in the composition of U.S. investment flows to the developing world, which is now mostly (84 percent) from private sources. MCC is looking at new ways to harness these resources, including through greater engagement with the private sector in compact development and through innovative finance approaches.

MCC is promoting investment opportunities around MCC projects as a way to increase the project's impacts and the sustainability of those impacts. Together with our partner countries, we are using compact investments to help build markets and to connect our compact programs beneficiaries to global supply chains. We are piloting this approach in Ghana and Morocco, and have had success in El Salvador as well. For example:

- o In El Salvador, the MCC attracted private sector financing and investment to complement its compact funding for rural electrification. FOMILENIO, the Salvadoran entity responsible for compact implementation, now has a \$33 million public-private partnership with Virginia-based AES Corporation, which will support 1,300 kilometers of rural electrification lines, benefiting an estimated 20,000 poor families who are currently without power.
- o *VegPro*, a Kenyan company, is preparing to export vegetables from Ghana to Europe. By working with MiDA, the local entity responsible for implementing Ghana's MCC compact, *VegPro* is leasing a 250-hectare farm next to the MCC irrigation perimeter. *VegPro* will be providing farmers with direct employment on its own farm and sourcing vegetables from MCC-supported farmers next door. Over the next four years, *VegPro* is planning to expand operations, which will create additional opportunities for local farmers. As their incomes increase, these farmers can expand their production, send their children to school, and enjoy a higher standard of living.

Looking forward to new compacts, we are providing MCC partner countries with resources to proactively target potential private sector partners early in the compact design stage. Time is one of the key challenges MCC faces in building more private sector linkages. Many private investors operate on timelines that exceed MCC's five-year compact term. Another challenge is capacity. Many MCC partner countries face capacity constraints as they design and implement MCC projects. Even with MCC support, attracting the right partners to leverage potential private sector investments adds to the countries' challenges. Despite these challenges, we remain confident because private sector engagement and increased economic growth are essential for reducing poverty on a sustained basis.

Mongolia

In December the Committee was notified of the MCC's intent to reprogram \$188 million within the Mongolia compact. These funds were initially agreed upon by the US and Mongolia to rehabilitate the country's railways contingent on an independent audit of the owners. The audit never materialized, and the MCC reprogrammed the funds to a road program and clean energy programs.

- 1) Do these new programs meet the same level of economic rate of return as the original compact projects? Can they be completed within the original 5 years of the compact?
- 2) By my calculations, not all the funds were re-allocated – how much of the original railroad funding was leftover? Were these funds de-obligated? If not, how does MCC intend to spend these funds?
- 3) Is MCC setting a bad precedent for future compacts given that Mongolia could not live up to its commitments to audit the railroad company, yet it still benefited from the same level of compact funds?

The circumstances relating to the Government of Mongolia's withdrawal of the rail project in the Mongolia compact were unusual. The project was determined to have exceptional benefit for Mongolia (the rail system is the backbone of the Mongolia economy), and following detailed assessment and planning, MCC and the Government of Mongolia believed that there was a reasonable prospect that it could be implemented. However, the rail company is jointly owned by a "commercialized" Russian state rail company. Russian shareholders were fully informed of the terms of the MCC investment in the rail system (which was not directly into the rail company, but through a new special purpose commercial vehicle separately owned and operated), and the U.S. Ambassador to Mongolia briefed the Russian Ambassador to Mongolia on at least two occasions. MCC and the Government of Mongolia were fully cognizant that the project could not be implemented without Russian cooperation. The requirement of an early audit of the rail company was included partly to serve as a test of the commitment of Russian shareholders at an early stage before any significant compact funds were spent on the rail project.

When the Government of Mongolia notified MCC of its desire to withdraw the rail project and asked that the funding be re-allocated to other projects, MCC was very clear that there was no guarantee that the funds would be re-allocated, in whole or in part. However, in part because the risk of Russian non-

cooperation was a known risk, as was the fact that the Mongolians would have only limited leverage with their partner, MCC determined that the withdrawal of the project did not represent a willful refusal on the part of the Government of Mongolia to meet a programmatic requirement. Accordingly, MCC agreed to entertain a proposal for re-allocation. This re-allocation proposal had to meet all the usual MCC standards, including contribution to poverty reduction through economic growth, environmental and social principles, ability to be implemented within cost and time frames, and compatibility with the priorities identified during the consultation process.

In September 2009 and December 2009, the MCC Board of Directors considered and approved the proposed re-allocation of the rail project funds to projects designed to: (i) increase existing health, property rights and land management, and vocational education projects; (ii) rehabilitate a critical segment of road in the north-south corridor; and (iii) promote clean alternative energy and energy efficiency, focusing on access to wind power and energy efficient technologies. MCC conducted a due diligence analysis of these new projects to evaluate them against a number of investment criteria, including MCC's economic rate of return (ERR) criteria, satisfaction of environmental and social standards, compatibility with priorities identified in the original public consultation process, and feasibility within the remaining time frame. Approximately \$7.5 million that was not allocated to a specific project was approved by the Board as compact contingency funding, which is expected to be used to support additional environmental work and cover (as is usual with contingencies) unexpected but critical costs. Given the circumstances surrounding the railroad, MCC believes these decisions were responsible and in accordance with MCC principles. MCC also believes that the unusual circumstances of the Mongolia railroad project preclude this instance from being used as a precedent by other countries that may fail to meet their obligations under a compact.

Corruption

Q1: Has any country had MCC funding delayed or stopped because fraud or corruption was detected?

MCC takes the issue of corruption very seriously. MCC takes proactive steps to address allegations of fraudulent or corrupt practices. No MCC funding has been delayed or stopped as a result of detecting fraud or corruption. However, MCC has put a temporary hold on a few contract actions pending the collection of facts surrounding an allegation of fraud or corruption. Last year, MCC formulated and adopted a policy on "Preventing, Detecting and Remediating Fraud and Corruption in MCC Operations," which is available on [MCC's public website](#). More detail on this policy is included in the answer to Q3 below.

Q2: In countries with a history of corruption, what safeguards are in place to prevent government officials or their friends from personally benefiting from MCC compact programs?

MCC compacts reflect a process and a series of safeguards to ensure that American taxpayer funds are used for the good of the intended beneficiaries. These safeguards include due diligence on all candidates for management positions in our partner countries' accountable entities (the entities that will implement the country program, generally referred to as MCAs); governance arrangements that include non-government members of MCA boards; the establishment of stakeholder advisory committees; and measures to ensure that procurements are conducted in an open and transparent manner, payments are

made for legitimate expenses, and conflicts of interest are identified and mitigated. Implementation actions are audited regularly, including by a full financial audit every six months, and regular technical audits are conducted in the field to ensure that goods and services are delivered as promised.

Q3: What cooperation does the MCC receive from local communities to fight corruption and does more outreach need to be a part of MCC public relations? For example, has MCC established ways for community members to anonymously report incidences of fraud?

MCC's "Policy on the Prevention, Detection and Remediation of Fraud and Corruption in MCC Operations" sets forth guidelines for combating fraud and corruption and the specific measures MCC is taking to provide capacity building tools and training. For example, the policy requires that the local MCAs, with MCC participation, assess fraud and corruption risk and develop an action plan for implementing these additional anti-corruption measures. These action plans are made publicly available. To make these efforts even more effective, MCC is developing a training course to raise awareness and to strengthen MCAs' capacity to prevent and detect fraud and corruption. Because corruption is most effectively tackled at the local level, MCC also seeks to raise awareness and understanding beyond those directly involved in implementation.

MCC's anti-fraud and corruption policy is available online in four languages for wider access. The policy requires vigilance beyond just procurement activities; it focuses on project design issues that can create fraud and corruption vulnerabilities from the start. Finally, the policy also details the process for reporting allegations. MCC has created safe avenues for people to report suspected fraud or corruption. MCC's web site (www.mcc.gov) has a link and hotline information that enables anyone to submit an anonymous allegation of fraud and corruption to the USAID Office of the Inspector General, which oversees MCC, and an option to report to MCC as well. Each MCA unit is also required to create a stakeholder committee that can be a means for reporting concerns.

Development experience shows that over the long term, one of the best preventative measures for corruption, including "elite capture" of development resources, is transparency. MCC requires partner countries to develop their compact proposals in consultation with civil society, through a consultative process that begins soon after MCC's Board of Directors selects a country for compact eligibility, and continues through compact development, environmental and social impact assessments, project design, and implementation.

Q4: In compact countries that fail or barely pass the corruption indicator, do you establish tougher anti-corruption safeguards than in other countries? If so, could you give specific examples?

In countries where MCC due diligence identifies weaknesses around the integrity of a country's contracting procedures or control of funds, MCC has insisted on using external procurement agents or fiscal agents, respectively, rather than using host country systems. (Such agents are also commonly used in situations where there is not a corruption concern but where host country capacity is weak.)

In some cases, assistance under the compact had reinforced efforts begun under MCC's threshold program to redress some systemic weaknesses that increased vulnerability to corruption. For example, in the proposed Philippines compact, MCC funding would build off the work done in their threshold

program by improving tax revenue collection and strengthening the investigation of and administrative sanctions against tax and customs officials accused of corruption.

Second Compacts

In December, the MCC Board selected Cape Verde as the first country to be selected for a second MCC compact.

- 1) In selecting Cape Verde for a second MCC compact, has the MCC run out of eligible countries with which it can negotiate a compact?
- 2) Are threshold program countries not reaching eligibility status as the program was initially designed?

Second compacts are consistent with MCC's mandate to work with partner countries committed to long-term growth and reducing poverty. In MCC's selection of potential partners, MCC considers a country's policy performance, the opportunity to reduce poverty, and the funds available. For second compacts, we also consider how well the country performed in implementing its first compact. We believe that second compacts will provide additional incentives for countries to improve policy performance. Because the selection for a second compact is competitive and not automatic, countries that already have compacts are incentivized to implement their compact programs effectively, achieve results, and pursue continued policy performance.

MCC does not intend to have open-ended commitments with partner countries. We will assess the appropriate nature of each partnership by judging the sustainability of our investments and the countries' ability to leverage diversified public and private resources. MCC does not prioritize eligibility of either an existing partner interested in a second compact or a new partner country for a first compact. MCC will remain focused on the "best" partners in terms of policy performance and those most motivated to develop an innovative compact to reduce poverty and sustain economic growth.

The track record of the threshold program has been mixed. Many threshold countries have gone on to compact eligibility, but it is difficult in such a short period of time for MCC to draw a direct causal relationship between threshold programs and eligibility from a completed threshold program. However, we believe that the threshold program creates a powerful incentive for reform, and has supported meaningful policy and institutional reforms. For this and other reasons, MCC is currently conducting a threshold program review to assess what the program has achieved to date, appropriate objectives for the program, and if changes should be made.

Indonesia

The President's FY2011 request includes \$521 million that is intended for a compact with Indonesia. However the request assumes that authorizing language will be enacted that will allow the MCC to have concurrent compacts. According to the budget justification, the total funding for Indonesia is expected to be in the range of \$700-800 million split over two years and in two compacts.

- 1) The MCC has been asking for concurrent compact authority for several years now. Have you been given any indication by the authorizing committees that they plan to enact an MCC authorization this year?
- 2) It appears that this request for concurrent authority is to circumvent the appropriations language included each year that requires full funding of a compact at the time of compact signing. Could you please comment?

With concurrent compacts, as part of a larger, cohesive framework, MCC could move forward with projects that are investment-ready, instead of having to put several projects at various stages of readiness into a single compact or delaying compact signing for a promising but less developed project. With smaller, staggered agreements, local implementing units will be better able to build management capacity with early projects and ease the current burden of managing large, complex compact programs with projects that all commence on the same day and end on the same day. The use of this authority would be limited, based on the prospect for investing in innovative projects that will have a substantial impact on poverty, but that need more time for thorough development.

Concurrent compacts would allow for more certainty in the budget process, especially in light of constrained resources; concurrent compacts would also serve as an added incentive for ongoing policy reforms in partner countries. Concurrent compacts would also make it easier to pursue innovative program design and implementation mechanisms.

Concurrent compacts will have a positive effect on MCC's budget predictability and accountability. A key best practice of foreign assistance is the ability to obligate program funding up front because it allows recipient countries to plan and manage development strategies and budgets in a sustained way. It also allows MCC to make large investments in long-term infrastructure projects without suffering the cost premiums associated with uncertain project funding. Upfront funding for a single compact with many different projects, however, means that MCC holds large obligated but undisbursed balances. Concurrent compact authority would allow MCC to sign a series of smaller compacts with upfront funding, implement them more efficiently, and reach disbursement targets more quickly.

For the first time, the Administration linked the request for concurrent compact authority to the President's Fiscal Year 2011 Budget, and the Senate Foreign Relations Committee has included legislative language on concurrent compact authority as part of its Foreign Relations Authorization (S. 2971). MCC continues to discuss this legislative priority with both House and Senate authorizing committees.

**Congresswoman Barbara Lee, of California
Questions for the Record**

**Committee on Appropriations
Subcommittee on State, Foreign Operations
HEARING on FY10 MCC Budget**

H-140 (U.S. Capitol)

10:00 a.m.

April 14, 2010

Compact Priorities

Historically, the bulk of MCC investments appear to center around agriculture and infrastructure programs.

Q1: How specifically is the MCC communicating to countries that social sector investments, such as basic education and health projects, in their compact proposals will be given equal consideration?

At the beginning of the compact development process, MCC explains to newly-eligible countries that we will consider proposals in any sector, including the health and education sectors, so long as the proposed projects address a constraint to growth. Prior to their submission of project proposals to MCC, countries undertake an analysis of their principal constraints to growth. Where social sectors, such as health and education, are identified by partner countries as key constraints, MCC works with countries to develop and appraise the proposed projects. In countries like Lesotho, Mongolia, Namibia, Burkina Faso, and Ghana, the health and education of the workforce were identified as critical constraints to sustainable economic growth and poverty reduction, and were proposed by the country for inclusion in their compact program. Currently, MCC is working with the Government of Zambia to develop a proposal to address critical technical and vocational education and entrepreneurial training.

MCC provides a number of guidance documents to countries developing proposals for MCC compact support. These include guidance on constraints analysis and beneficiary analysis, as well as specific guidance to countries making proposals in sectors such as agriculture, health, and education (among others). These materials support countries in developing proposals that will meet their needs in these sectors and will fit within MCC's model of promoting poverty reduction through economic growth.

Q2: How are indicators in these areas prioritized or emphasized in the compact proposal review process?

While a partner country's performance on health and education indicators is a critical part of determining eligibility for a compact, these do not necessarily directly inform the kind of projects a country proposes for compact assistance. Four out of the five of MCC's selection indicators in the Investing in People category are related to health and education, specifically immunization rates, health expenditures, primary education expenditures, and girls' primary completion rates. MCC threshold program investments often have addressed weaknesses in these areas, and, in some circumstances, countries have requested continued assistance in the area through their compact. For example, Burkina Faso's compact includes a major investment in primary education that follows on the work done under Burkina Faso's threshold program, because this was determined to be a critical constraint to long-term economic growth. Other countries have asked for assistance in the health or education sector as a part of their compact programs. All MCC partner countries understand that continued performance on the indicator criteria is expected during implementation of the compact.

Small Business and Minority Contracting

Q1: I understand that the Small Business Administration negotiates minority business goals with the various agencies of the federal government.

What is the MCC's minority business procurement goal?

How did the MCC perform with regard to this goal last year?

MCC has a strong record of supporting minority- and women-owned small businesses, as well as disadvantaged firms included under section 8(a) of the Small Business Act. As shown below, MCC met all of its small business administration goals in Fiscal Year 2009, except for the Service Disabled Veterans Small Business goal (3% goal, 2% actual). We exceeded two of our goals, for small disadvantaged minority businesses and 8(a) firms (see following charts). MCC is focusing on its efforts to ensure that we meet all goals in Fiscal Year 2010.

	Goal	MCC	Result
Small Business	30%	40%	(\$10M)
Small Disadvantaged Minority Bus.	5%	14%	(\$3.4M)
8(a) Program (Minorities)	3%	13%	(\$3M)
Hispanic	N/A	4%	(\$900K)
Woman Owned Sm. Bus.	5%	12%	(\$3M)
HUBZone Sm. Bus.	3%	3%	(\$825K)
Service Disabled Vet. Sm. Bus.	3%	2%	(\$643K)

These goals pertain to procurements by MCC headquarters. Most procurements related to MCC's compact programs are managed by the local entities (the MCAs) responsible for implementing each compact in our partner countries. These procurements are exempt from the Small Business Act because the MCAs are host government entities. These local procurements are guided by separate procedures (including those set forth in MCC's program procurement guidelines) that are focused on quality, cost, and increasing local capacity, where possible.

Q2: Outreach to minority firms is critical in ensuring that the agencies avail themselves of minority participation, and has been proven a successful tool in attracting more minority firms to do business with the federal government.

What is MCC doing to make a more concerted effort to reach out to minority owned firms? Most importantly, how do these activities or policies differ from previous years?

Does MCC have an advertising campaign specifically targeting small, minority, and disadvantaged businesses?

MCC proactively reaches out to firms to provide them information on key opportunities that could be advantageous for small firms. In addition to the general federal government websites, MCC posts a procurement forecast on the MCC.gov webpage and we require Small Business Subcontracting Plans for any contract not set aside to small business firms. In Fiscal Year 2009, 40% of MCC subcontracts went to small businesses and 14% went to minority-owned small businesses.

We plan to build on these efforts and welcome your ideas on how we can be more effective in our outreach.

Gender-Sensitive Development Framework

Q1: The Millennium Challenge Corporation's FY11 Budget Justification specifically highlights gender considerations as an integral component of compact programs.

What steps is the MCC currently taking, or would you propose taking, to ensure the MCC effectively integrates gender-sensitive frameworks into all its programs?

MCC is committed to building upon our leadership among USG agencies in furthering gender equality in development and ensuring that gender considerations are central, not only to the design of a program but also throughout program implementation. Gender

analysis is a tool for ensuring that all development projects that impact people take into consideration gender differences and inequalities in design and implementation. Aid effectiveness is improved when both women and men are able to participate and benefit from development investments. We already know that women are more likely to re-invest their incomes in their families, so ensuring that women's incomes are increased will increase aid effectiveness.

In accordance with MCC's gender policy, MCC monitoring and evaluations plans call for targeting and disaggregating key outcome and impact indicators by gender. As part of its beneficiary analysis, MCC measures the share of female participants in each activity the extent to which gender differences are expected to arise in the likely distribution of benefits from each project. The current data on record estimates an average of 52% of project beneficiaries as female.

MCC has made a renewed commitment to gender integration, building on our good work of the past to ensure that we have the capacity, resources and accountability mechanisms needed. Cassandra Butts, a Senior Advisor at MCC, will be engaged in directing our efforts as MCC implements a strategy to strengthen both our own and our country partners' work.

Q2: It is my understanding that a few years ago (2006) the MCC adopted a comprehensive gender policy, but that this mandate suffered from a severe staffing shortfall with only one person handling these issues as of last year.

How is the MCC planning on addressing this shortfall in staff capacity in order to meet the requirements set forth by the gender policy?

MCC is planning to double its staff in this area to enhance our technical expertise in performing social and gender assessments; this will allow MCC to better assist partner countries as they develop and implement compacts. In addition to the role of MCC's new Senior Advisor Cassandra Butts, the agency is in the process of hiring three new staff in this area. We are revising our guidance to partner countries and ensuring that our partners also have the needed expertise on staff. We are also expanding our training, incentives structure, and other capacity-building activities for MCC staff and for our partner countries.

Minority Hiring

What are you doing to increase the number of minorities in decision making positions at MCC?

Does the MCC have specific programs targeting or partnering with minority serving educational institutions?

MCC has a diverse workforce. Women make up over one-half and minorities over one-quarter of MCC staff. Women and minorities are well represented at all levels of the agency, including senior management.

MCC actively recruits at public policy, business, and law schools, so that we are able to recruit outstanding employees from all backgrounds. MCC also has ongoing relationships with groups dedicated to fostering opportunities for minority students, including the Ralph Bunche Societies and the Hispanic Association of Colleges and Universities.

In May 2010, MCC will participate in the Washington, DC-based Latinos for Hire Career Fair; which is one component of MCC's efforts to enhance outreach to minority groups. We are also developing a more strategic outreach and recruitment plan that links our core competencies to nationally under-represented groups.

Aid Dependency/Capacity Building

How does the MCC help build host country systems such as public financial management, procurement, and monitoring and evaluation?

Sustainability and country ownership are core principles of the MCC model. MCC has devoted significant attention and resources to capacity building in partner countries. Because MCC's model is one of country-led implementation, the agency does a great deal of up-front and ongoing training to the local teams (MCAs) that are managing the implementation of compacts, including in the areas of financial management, procurement, accountability, monitoring and evaluation, and social and environmental assessments.

Capacity building is essential for the successful implementation of MCC's compact programs. As MCC enters its sixth year, we continue to prioritize capacity building. A multi-sector review is currently underway to develop a more comprehensive and systematic program to build upon our existing efforts to assist MCAs and increase their capacity. The review will produce guidelines, resources, and a "curriculum" of courses and training. Pilot modules have been launched for procurement activities in Malawi, and key project management modules in Burkina Faso and Mozambique.

Questions for the Record Submitted by Mr. Kirk
For the MCC hearing
March 14, 2010

Question:

I have spent a great deal of time in Ghana - during the days of the second Rawlings dictatorship and the decision by that government to rejoin the world economy and renew its heritage as a democracy. While human rights and economic growth have improved since the dark days of the early 1980s, I am concerned about the treatment of U.S. investors in Ghana. There are reports from U.S. investors of poor treatment by Ghanaian officials and policy. How can the MCC help them?

MCC was designed to provide funding to developing countries with relatively good performance in a number of broad policy areas, including policies that affect the investment climate. The MCC model incentivizes reform by linking a country's eligibility for MCC grant funding to performance on indicators that address the country's policy environment, including control of corruption, regulatory quality, and the ease of starting a business. Furthermore, during the development of a compact program, MCC conducts extensive due diligence of the potential investment and the relevant sector generally. MCC engages in discussions of sector constraints and of policy matters that may inhibit project success or viability, and, in many cases, we require those issues to be addressed before we will consider it a viable investment.

MCC does not take positions on individual commercial disputes unrelated to MCC projects, or play an active advocacy role in the resolution of investment disputes affecting American investors in MCC partner countries. These matters are handled by other USG agencies, such as the Economic Section of the State Department and the U.S. Commercial Service. MCC will continue to monitor matters in Ghana and will raise with the appropriate government officials the critical importance of continued strong policy reform efforts to encourage investment and to maintain its performance on the MCC indicators.

TUESDAY, MARCH 23, 2010.

GLOBAL HEALTH AND HIV/AIDS PROGRAMS AT THE DEPARTMENT OF STATE AND THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

WITNESSES

ERIC GOOSBY, M.D., U.S. GLOBAL AIDS COORDINATOR, U.S. DEPARTMENT OF STATE

GLORIA STEELE, SENIOR DEPUTY ASSISTANT ADMINISTRATOR FOR GLOBAL HEALTH, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

OPENING STATEMENT OF CHAIRWOMAN LOWEY

Mrs. LOWEY. The subcommittee on State Foreign Operations and Related Programs will come to order.

I would like to welcome Dr. Eric Goosby, the United States Global Aids Coordinator, and Ms. Gloria Steele, the Senior Deputy Assistant Administrator of the Bureau for Global Health at USAID, to discuss the President's fiscal year 2011 request for global health.

This committee has made global health a key priority, providing over \$30 billion over the past 5 years with impressive results. HIV/AIDS programs directly supported 2.4 million people on treatment. Malaria programs have protected 19 million families with bednets; and nineteen million women have access to voluntary family planning services.

Despite expanded services, the development of parallel systems or "stovepipes of excellence," present challenges with integration and efficiency. It makes no sense for a woman to travel east of her village for a prenatal visit, west to get her daughter vaccinated, and north for an HIV/AIDS test. I am pleased that the budget request proposes to put in place better coordination, particularly given the strong foundation within the HIV/AIDS programs.

The budget requests \$8.5 billion for the Global Health Initiative—a 9 percent increase that supports a coordinated health program in key countries, with a goal of increasing access to health services and reducing mortality and morbidity. I hope you will address how the U.S. Government-supported health programs will become more effective and efficient in target countries. Overall, I applaud the streamlining effort and look forward to working with both of you on implementation.

Looking to specific health issues. The budget request provides a total of \$1.49 billion for maternal health, child survival, family planning, and nutrition. In fiscal year 2008, USAID developed a comprehensive strategy, at the direction of this Subcommittee, to expand child survival programs, focusing resources in 30 countries. What results were attained with these additional resources. We would like you to share with us. What lessons learned will be ap-

plied to the GHI? And do we expect improved results with an integrated model under GHI?

I have championed expanded access to voluntary family planning for many years. We still find ourselves unable to meet the demand in much of the developing world. And under the GHI, how will U.S. Government resources insure access to those most in need of these services? What efforts will be made to integrate family planning with other services for mothers, including child survival and Malaria programs? Other donors have prioritized family planning, and I am interested to hear how you will coordinate with them so the expanded U.S. effort fully complements their programs.

With increased focus on host country ownership, which is critical, many remaining questions require evaluation. How will this new priority impact implementation of global HIV/AIDS programs? Will OGAC funding be provided to governments as budget support? Will grants and contracts with nongovernmental entities end or will these programs be implemented by host country governments? What monitoring and evaluation is in place to ensure consistent and accessible services for patients during this transition?

Finally, although the new HIV/AIDS strategy prioritizes prevention, I am concerned the budget request does not reflect this new commitment. Although new infections have dropped and young people in some parts of the world are waiting longer to become sexually active, the number of infections continues to grow. Every minute, five people become infected; and nearly 25 years into this pandemic we still do not know what prevention strategies work.

This subcommittee requested a prevention strategy in the fiscal year 2010 conference agreement that was due to this committee this week but has not yet been provided. When can we expect this report? And what new strategies will you put in place to strengthen our prevention intervention? What new research is emerging to slow the pandemic? Obviously, prevention is just a piece of the picture, and U.S. funding will continue to support care and treatment.

I look forward to addressing these issues during the question and answer portion of the hearing.

The challenges before us are immense. I am pleased the United States will continue its leadership role in global health. We are very lucky to have your expertise, and I look forward to hearing your remarks and working with both of you on these and other global health issues.

First, let me turn to the ranking member, Ms. Granger, for her opening statement. I apologize for some of my colleagues, because there is a signing ceremony at the White House. So I had to say to Speaker Pelosi 5 minutes ago, sorry, I couldn't go over with you. But thank you again for appearing before us.

Ms. Granger.

OPENING REMARKS BY MS. GRANGER

Ms. GRANGER. Thank you very much.

I would like to welcome Ambassador Goosby and Ms. Steele before this subcommittee to discuss the fiscal year 2011 request.

The President's Global Health Initiative was announced last May and encompasses all global health funding under this subcommittee's jurisdiction. It totals \$8.5 billion in fiscal year 2011, an in-

crease of \$684 million from last year, the majority of which, of course, comes from this subcommittee. Almost 70 percent of the request, \$5.8 billion, is for HIV/AIDS programs under Ambassador Goosby's office, as the chairman mentioned.

I want to be on record that the goals of the President's Global Health Initiative are impressive, they are important, and they are worthy of support. These goals include achieving better health for women and children in the developing world and providing a long-term plan for delivery of health services led by the countries themselves.

Funding for global health programs has increased significantly since the start of the Bush administration to last year's enacted level, from \$1.8 billion to \$7.8 billion. This three-fold increase in funding has allowed for a rapid scale-up of our health intervention overseas.

Now is the time to begin examining the path forward, because this level of increase can't be sustained while our country faces such a dire fiscal situation. We must examine our global health budget and take advantage of programs that can build the capacity within countries so that they are one day able to provide more for themselves over the long term.

I applaud the administration for looking at how to shift the global health debate to sustainability, sustainability by recipient countries so they can graduate from U.S. bilateral assistance one day and sustainability by the many hospitals and clinics built by the United States government funding so that trained health care workers will provide services in the future.

We have a long way to achieve these goals, but I commend the administration for starting the dialogue. In practice, I see a number of challenges, in particular the faith-based organizations that I hope to address during my question time.

Additionally, I don't understand why a Presidential initiative of this size is not being formalized through authorization legislation. Instead, the administration has put this subcommittee in a difficult position by requesting a number of significant funding increases for several programs, maternal and child health, nutrition, family planning and neglected tropical diseases, but there is no legislative recommendation for laying out the concrete steps necessary to determine how those dollars might be spent differently. How can we be assured that the Global Health Initiative will not just add another layer of bureaucracy to these crucial programs?

Finally, with respect to the U.S. contribution to the Global Fund, Ambassador Goosby, I understand you will be leaving today to fly to Geneva for the Global Fund's replenishment meeting. If I could suggest one message for you to take to the conference, it would be that the Global Fund must find a way to manage its demand, particularly in a constrained fiscal environment.

The committee included language in the statement of managers last year addressing this issue, and I look forward to hearing from you the recommendations of the Global Fund's working group to manage tension between demand and supply and how those recommendations can be implemented prior to launching a tenth round of new grants.

I thank you both for appearing before us today, and I look forward to hearing about your work.

Thank you, Madam Chair.

Mrs. LOWEY. Thank you.

Ambassador Goosby, your full written statement will be placed in the record. Please feel free to summarize your oral statement. Thank you.

Dr. GOOSBY. Thank you very much.

Well, Chairwoman Lowey and Ranking Member Granger, it is really an honor to have this opportunity to talk to you today. Your bipartisan support has been the essential ingredient to the program's success.

In a time of tightening budgets and economic constraint, the President is seeking nearly \$7 billion for bilateral HIV/AIDS programs, bilateral TB programs and research, and contributions to multilateral efforts. The United States is and under this budget will remain by far the largest donor to global health and HIV/AIDS, contributing more than half of the global donor response.

In addition, the President's request of \$1 billion for the Global Fund represents the largest request made in a President's budget to date and maintains our status as the leading contributor to the fund.

PEPFAR is the cornerstone of the President's Global Health Initiative, which commits \$63 billion over 6 years to support partner countries in improving and expanding access to health services.

The Global Health Initiative is about integration, coordination, building capacity, and creating the conditions for a long-term sustainability project. I want to stress that this new initiative will not change PEPFAR's emphasis on prevention, care, and treatment of HIV/AIDS but will allow us to ensure that communities affected by HIV have access to comprehensive health services to address the needs that they face.

Seven years after the creation of PEPFAR, AIDS is still a leading cause of death in many countries and a continued threat around the world. Investments in PEPFAR and the global AIDS fight overall continue to be necessary.

At the same time, we should take note of the difference PEPFAR has made. Many thought treatment never could be scaled up in Africa because of weak health care delivery systems—the need for doctors, nurses, the lack of resources. Now PEPFAR is directly supporting almost 2.5 million individuals on treatment. In 2009 alone, PEPFAR supported HIV counseling and testing for nearly 29 million people and care for 11 million people, including 3.6 million orphans and vulnerable children.

PEPFAR's core business has been and will continue to be prevention, care, and treatment.

I would like to briefly discuss some of the themes which will guide us over the next few years as we move from an emergency response to promoting sustainable country-led responses.

Preventing new infections represents the long-term, sustainable way to turn the tide against HIV/AIDS. Over its next phase, PEPFAR's focus will be assisting countries in implementing a combination of behavioral, medical, biomedical and structural interven-

tions, working with countries to target and research most at-risk populations and expand the evidence base around prevention.

Another key focus is support for country ownership. Strong government leadership of the health system is integral to long-term success.

Last August, I wrote to our U.S. ambassadors to ask for their support in the transition from an emergency response to a sustainable program. I have been greatly encouraged by their leadership as our country programs develop partnership frameworks and accompanying implementation plans with governments. Our discussions are also laying the groundwork for engaging in partnership with countries more broadly through GHI.

A heightened focus under both our 5-year strategy and GHI is support for strengthening of health systems. By reducing the HIV burden on facilities and health workers, PEPFAR frees up capacity to address other health needs.

We are also supporting training of new health workers and expansion of infrastructure. As part of GHI, PEPFAR will explore opportunities for joint programming and increased coordination for health system activities.

Our strategy recognizes that HIV/AIDS is a shared global responsibility. All the elements of a national response to health requires support from a mix of national resources and external resources. Because the United States has done so much on HIV/AIDS, I sometimes sense a tendency for people to conclude that we can or should do it all. Even if we somehow could do it all, globally or in any country, that would completely undermine the principles of country ownership and sustainability.

This administration is aggressively pursuing dialogue around a truly shared global response in multiple form with partner governments, other donors, multilateral organizations and foundations. We must all come together if we are going to win this fight and continue to respond to the unmet need.

Finally, PEPFAR represents a whole-of-government approach. We owe the people who lead the implementation of PEPFAR a tremendous debt of gratitude. Our leadership and management structures must support them to the best of our ability.

PEPFAR has worked to decentralize programming and ensure that decisions move down to country level activities as made by United States country teams. We are working to further integrate the field perspective into its policy and communications, reduce the reporting burdens and paperwork requirements placed on the field; and I am pleased to note that PEPFAR's whole-of-government emphasis is being reinforced by GHI.

Once again, Chairman Lowey and Ranking Member Granger, I appreciate the subcommittee's strong support; and I look forward to our question and dialogue. Thank you.

[The information follows:]

The President's Emergency Plan for AIDS Relief

**Statement of Ambassador Eric Goosby, M.D.
U.S. Global AIDS Coordinator, U.S. Department of State
Before the United States House of Representatives
Committee on Appropriations
Subcommittee on State and Foreign Operations
Washington, DC
March 23, 2010**

Introduction

Chairwoman Lowey, Ranking Member Granger: thank you for this opportunity to discuss the President's Fiscal Year (FY) 2011 Budget request for the President's Emergency Plan for AIDS Relief, or PEPFAR.

You and your colleagues have been key partners in our work since the early days of PEPFAR, and the bipartisan support from both this Subcommittee and Congress overall has been an essential ingredient of the program's success.

And the support for this program, which was established by the Bush Administration, is reflected in a strong and enduring commitment to the fight against global AIDS by the Obama Administration. It is a central piece of the foreign policy and global health agenda outlined by both the President and Secretary of State Hillary Rodham Clinton.

In fact, PEPFAR is the cornerstone of the President's Global Health Initiative (GHI), which commits \$63 billion dollars over six years to support partner countries in improving and expanding access to health services. GHI represents a stunning level of investment that would have been unimaginable even 10 years ago. In addition to this funding commitment, GHI is about new emphases on integration, coordination, building capacity, and creating the conditions for long-term sustainability. I want to stress that this new Initiative will not change PEPFAR's emphasis on prevention, care and treatment of HIV/AIDS, but will allow us to ensure that communities affected by HIV have access to a comprehensive set of health services, to address the range of health needs they face. And I look forward to working with my colleagues across agencies, and in consultation with Congress, to ensure the success of GHI in improving the health of people and the health systems of partners around the globe.

Budget overview

Let me begin by providing an overview of the FY 2011 Budget request. In a time of tightening budgets and economic constraints, this request for the eighth year of the program is the largest request to date in a President's Budget. The U.S. is -- and under this Budget will remain -- by far the largest donor to global HIV/AIDS efforts, contributing more than half of the total global donor response to this epidemic. Despite the economic and budget challenges we face, the President's request demonstrates this Administration's continued commitment on HIV/AIDS.

The President is seeking \$6.99 billion for bilateral HIV/AIDS programs, bilateral tuberculosis (TB) programs and research, and contributions to multilateral efforts such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) and the Joint United Nations Programme on HIV/AIDS

(UNAIDS). The request includes \$5.74 billion for bilateral HIV/AIDS programs, a \$197 million increase from the FY 2010 enacted level.

The U.S. remains by far the largest financier of the Global Fund, which is a central piece of the U.S. strategy to address global HIV/AIDS, TB and malaria. The President's request of \$1 billion (from all accounts) for the Fund represents the largest request made in a President's Budget to date, up from the FY 2010 request for \$900 million, and a doubling of the FY 2009 request of \$500 million by the previous Administration. U.S. contributions since the inception of the Global Fund through the FY 2009 contribution total more than \$4.3 billion. Including contributions from FY 2009 and FY 2010, the total U.S. contribution through FY 2010 is anticipated to approach \$5.5 billion.

In addition to direct financial contributions, the U.S. supports the Fund through planning support and technical assistance to facilitate grant implementation funded through U.S. bilateral programs. The Global Fund's success is our success, so the PEPFAR vision is one of greater collaboration at the country level, in addition to continued strong funding support.

The current global response

I'd like to offer some perspective on where the global response is today – where we have been, and where we are going under our new Five-Year Strategy, which was released in December 2009. For a deeper exploration of these topics, please refer to the Strategy at <http://www.pepfar.gov/strategy/index.htm>.

Seven years after the creation of PEPFAR, AIDS is still a leading cause of death in many countries, and a continued threat around the world.

According to UNAIDS, 33.4 million people are living with HIV worldwide, and approximately 2.7 million new infections occurred in 2008. For every two people who start treatment, five more are infected. Women and girls continue to face disproportionate impact of new infections. The World Health Organization (WHO) reports that AIDS is the leading cause of death worldwide for women in their reproductive years (ages 15-44) – and these women who die often leave behind children who are then themselves at higher risk for adverse health outcomes. Most-at-risk populations – including men who have sex with men (MSM), sex workers, and injecting drug users – continue to face stigma that limit their ability to obtain services, contributing to the wider transmission of HIV.

And, of course, AIDS remains an incurable, fatal disease. We can keep people alive with treatment, but we cannot yet cure them, nor do we yet have a vaccine to prevent infection.

The AIDS crisis is far from over. We must not become complacent, or prematurely declare victory in a fight that is a very, very long way from being won. Investments in PEPFAR, and the global AIDS fight overall, continue to be necessary.

At the same time, we should take note of the difference PEPFAR and other responses to HIV/AIDS have made.

As a clinician, I've been dealing with this disease both domestically and internationally for more than 25 years. A decade ago, those of us engaged in HIV work in sub-Saharan Africa were witnesses to daily

tragedies on a huge scale. Hospitals were not just full of people dying of AIDS, they were overflowing with multiple patients to a bed, spilling out onto the floors and into the hallways – any place where they could rest while waiting for some care.

While antiretroviral treatment had become widely available here in the United States during the 1990s, fewer than 50,000 people in all of sub-Saharan Africa were receiving it at the beginning of 2003. Even to those of us who had been responding to HIV/AIDS for decades, the sheer need, scope and inequity of this emergency were overwhelming. Many people thought treatment could never be scaled up in Africa because of weak health systems, the need for doctors and nurses, and the lack of resources in these countries.

Today, with American leadership, the task few thought was possible is well under way. Now, we're directly supporting almost 2.5 million individuals on treatment, the vast majority in Africa. And millions more are benefiting from prevention and care programs. In FY 2009 alone, PEPFAR supported HIV counseling and testing for nearly 29 million people, providing a critical entry point to prevention, treatment, and care. The program also supported care for nearly 11 million people affected by HIV/AIDS, including 3.6 million orphans and vulnerable children.

I would particularly like to note a marked increase in the results achieved by programs for prevention of mother-to-child transmission (PMTCT). In FY 2009, PEPFAR-supported programs provided services to millions of women, allowing nearly 100,000 babies of HIV-positive mothers to be born HIV-free, adding to the almost 240,000 infant infections averted during the previous years of the program. Our PEPFAR country teams deserve great credit for this significant boost in PMTCT efforts. FY 2009 results for all program areas may be found at www.PEPFAR.gov.

For those of us who saw the 'before' picture of AIDS in Africa, the 'after' picture we see today reflects extraordinary accomplishments. Or perhaps it's better to describe it as the 'during' picture, because right now we are really still in the early stages of what must be a sustained, global scale-up of the response.

When I visit countries now, I see the dramatic transformation this has brought about – not only for individuals, but for their families, their communities, and their nations. This change is not just reflected in hospitals and clinics, which are no longer overwhelmed by people dying of AIDS. It's reflected in the day-to-day lives of people.

I recently had the pleasure of visiting Nigeria, where I met with the Chief of the Gwagwalada Community near Abuja to discuss the impact of HIV/AIDS programming upon his community. At the meeting were men, women, and children who spoke about the ways that PEPFAR had impacted them – by providing treatment, by providing care, by providing support when their families were too sick to care for them. At the end of this meeting, the community took a vote of confidence in the PEPFAR program – a vote of confidence in the generosity of the American people.

Moving forward with PEPFAR and GHI

PEPFAR's core business has been and will continue to be prevention, care and treatment. But as we move forward, we are working to move from an emergency response to promoting sustainable, country-

led responses. I'd like to briefly discuss some of the themes which will guide us over the next few years, both in PEPFAR and the broader GHI.

Expanding existing commitments with a renewed focus on prevention

In recognition of the integrated nature of prevention, care and treatment in PEPFAR, the U.S. continues to support a portfolio of balanced activities tailored to the country context. All of these activities are routinely monitored and evaluated in order to ensure that they are of high quality. In keeping with the goal of sustainability, PEPFAR also supports the enhancement of local capacity to carry out monitoring and evaluation activities.

Prevention must be a central element of any successful country strategy. It remains the paramount challenge of the HIV epidemic globally, and preventing new infections represents the only long-term, sustainable way to turn the tide against HIV/AIDS.

A successful prevention program requires a combination of mutually reinforcing interventions tailored to the needs of different target populations. In recent years, several low-prevalence countries have had some success in containing their epidemics, concentrated in most-at-risk populations. However, only a few high-prevalence countries have significantly reduced HIV prevalence. Increased attention is critical for hyperendemic countries, while simultaneously continuing to respond to countries with both concentrated and generalized epidemics. Over the next phase, PEPFAR's prevention response is being guided by the following concepts:

- Supporting countries in reassessing their prevention response through mapping the epidemic, identifying the populations most impacted by new infections, and updating prevention strategies based upon these data;
- Assisting countries in implementing a combination of behavioral, biomedical, and structural interventions;
- Implementing, scaling up, and measuring the impact of proven and promising interventions, tools, and methodologies;
- Working with countries to target and reach most-at-risk populations, no matter how stigmatized or marginalized these populations may be;
- Expanding the evidence base around prevention, through monitoring, evaluation, and operations research of prevention programming; and
- Contributing to international efforts to develop harmonized indicators and new surveillance methodologies.

At the country level, multiple epidemics exist within diverse populations and social networks, including concentrated epidemics within larger generalized epidemics. Identifying and targeting interventions to match these needs is difficult, especially when such epidemics involve groups that are often marginalized and discriminated against. Stigmatized populations are frequently hidden and hard to reach with services. PEPFAR will support efforts to address the prevention, care and treatment needs of most at-risk populations. In addition, the disease's disproportionate impact on women and girls means that our prevention programs must focus on interventions – behavioral, biomedical, and structural – that will keep women and girls safe from infection. And an essential part of meeting the needs of women and girls involves working with men and boys to change attitudes around gender.

Supporting country ownership

A central focus of our Five-Year Strategy and of the GHI is promotion of country-led sustainable programs. We are committed to making sure efforts to fight global HIV/AIDS are lasting. Strong government leadership of the health system is integral to long-term success, and health systems are strongest where governments have leadership and technical skills to address health system weaknesses. As a result, PEPFAR will build partner government capacity to plan, oversee and manage programs; to support delivery of quality services with the participation of local civil society and communities; and ultimately, to finance health programs. Working from the basis of national health plans and engaging direct dialogue with partner country leadership, we will support countries in identifying the unmet needs their people face and identifying resources to meet them.

While a network of public and private partners delivers services, governments play the lead role in overseeing health systems among multiple actors at national, district, and community levels. In collaboration with other U.S. programs and international donors, PEPFAR supports governments to identify opportunities for health systems strengthening within their HIV and broader health and development sector plans.

Last August, I wrote to our U.S. Ambassadors in PEPFAR countries to ask for their leadership in supporting the transition from an emergency response to a sustainable program by increasing engagement and technical support for partner countries. I have been greatly encouraged by their efforts in response: they and their Embassy teams are on the front lines of our relationships with partner countries, so they see the value of this heightened emphasis. Under their leadership, our country programs are developing Partnership Frameworks and accompanying Implementation Plans with partner governments. These conversations are proving to be key forums for identifying what PEPFAR support for country ownership means on a country-specific basis, and we in turn are attempting to increase our ability to support their needs at the headquarters level. Our discussions are also laying the groundwork for some of our efforts to engage in partnership with countries more broadly through GHI.

Broader impact of investments on health systems and partner countries

Our Congressionally-mandated goals focus on individuals receiving services with PEPFAR support. Yet, just as the negative health and social impacts of HIV/AIDS have been far-reaching, successful interventions have had far-reaching effects.

PEPFAR and other programs benefit not only individuals, but their families and communities, and ultimately have a stabilizing effect for entire nations. A May 2009 study published in the *Annals of Internal Medicine* found that HIV-related mortality had dropped by 10.5% in the 12 PEPFAR focus countries analyzed by researchers - implying that about 1.2 million deaths were averted due to the work of PEPFAR. The individuals whose lives are saved are thus able to continue to work, or return to work. They can continue to provide and care for spouses and children who depend on them. To state the obvious, even the best program for orphans and vulnerable children cannot compare with keeping parents alive and families together in the first place.

Central to PEPFAR's impact to date, and a heightened focus under both our Five-Year Strategy and GHI, is support for strengthening of health systems. In order to improve the overall quality of their health services, we are supporting countries to make measurable improvements in the WHO's six

building blocks of health systems functions: service delivery; health workforce; information; medical products, vaccines and technologies; managing and financing; and leadership and governance.

By reducing the HIV burden on facilities and health workers, PEPFAR frees up existing capacity to address other health needs. It also helps to build new capacity in national health systems, particularly in areas like human resources for health. In countries like Ethiopia, Mozambique, Kenya, and Malawi, PEPFAR has supported health worker training that allows for “task-shifting,” which allows health care workers, where appropriate, to receive training to achieve higher-level tasks, maximizing their efficiency in clinics and treating more patients overall. We are also working aggressively to meet the legislative goal of supporting training and retention of 140,000 new health workers, dramatically expanding the capacity of national health systems.

Across Africa, PEPFAR is supporting investments in a lab infrastructure that can be used not only to process HIV tests, but also to be mobilized to identify H1N1 or other emerging infections. And the Supply Chain Management System, the mechanism through which PEPFAR supports countries in maintaining reliable supplies of life-saving treatment, is building country capacity to deliver not only HIV commodities, but the entire range of needed products. The most advanced warehouse management system in the Caribbean was developed with PEPFAR support, helping to ensure that drugs are delivered and stocked in a timely manner both for HIV and other diseases.

As we move forward, we will seek to ensure consideration of health systems dynamics in countries’ work to define, map, and implement plans to address country-level need, and develop robust indicators to track progress with health systems strengthening. PEPFAR is also working with countries to leverage additional donor resources and coordinate activities to realize broader impacts on overall health systems.

As part of GHI, PEPFAR will explore opportunities for joint programming and increased coordination around implementation and evaluation of health systems activities. In several PEPFAR programs we’ve been able to ‘wrap around’ services so that we’re not only serving the HIV needs of our clients, but also partnering with other programs of the U.S. and other partners to meet their other needs. For example, PEPFAR programs have worked with USAID education programs to address needs of HIV-affected orphans and vulnerable children, such as for school fees and supplies, meals, and vocational training, with special emphasis on keeping girls in school in countries such as Namibia, Uganda, and Zambia.

Fostering a shared global response

GHI and the PEPFAR Five-Year Strategy are built on the recognition that improving global health outcomes is a shared responsibility. The U.S. is joining multilateral, partner country, NGO, and private sector efforts to make progress toward achieving the health-related Millennium Development Goals.

In developing countries, all the elements of a national response to health needs – including HIV prevention, treatment, and care – require support from a mix of national resources and external resources. The U.S. cannot be the sole source of support. Rather, a global health response needs resources and investments from multiple sources, including country governments, other donors, multilateral organizations, and foundations.

I have already mentioned the strong U.S. financial support for the Global Fund, a multilateral financing organization that works through country-level mechanisms to support the response in three disease

areas. The Fund is critically important, because it provides a funding vehicle for nations that do not have significant bilateral programs as the U.S. does. I represent the U.S. on the Fund's Board, and under the GHI, we see the Fund's success in building country programs as being additive to PEPFAR programs in country. Our vision is one of greater collaboration at the country level to take full advantage of potential synergies that increase the number of people receiving services. The U.S. is the largest funder of this organization, but we do much more than provide funding. The U.S. also supports the Fund by funding planning support and technical assistance to facilitate Fund grant implementation. And we're working at the highest levels of the Fund to promote the concepts of country ownership.

Because the U.S. has done so much on HIV/AIDS, I sometimes sense a tendency for people to conclude that we can or should do it all. Even if we somehow could do it all, globally or in any country, that would completely undermine the principles of country ownership and sustainability, and leave sovereign nations at the mercy of outsiders.

This Administration is aggressively pursuing dialogue around a truly shared global response in multiple fora with partner governments, other donor governments, multilateral organizations, and foundations. We must all come together if we are going to win this fight.

Promoting a whole-of-government approach in PEPFAR and GHI

The people who lead the implementation of PEPFAR, both in the field (including locally employed staff) and at headquarters, are simply extraordinary. We owe them all a tremendous debt of gratitude. I take seriously the obligation to ensure that our leadership and management structures support them to the best of our ability.

PEPFAR has worked to decentralize programming and ensure that decisions on country-level activities are made by the U.S. country teams that are leading the ground-level response to the epidemic. For the past five years, these country teams have worked to rapidly expand and ensure quality health and social service delivery, while facing heavy reporting requirements. PEPFAR's interagency country teams ensure that programs meet the needs of the countries and communities where they work. PEPFAR is working to further integrate the field perspective into its policy and communications and reduce the reporting burdens and paperwork requirements placed on the field.

And I am pleased to note that PEPFAR's "whole of government" emphasis is being reinforced by the "one U.S. Government" focus of GHI. PEPFAR is assessing its innovative approaches to determine what elements contributed to interagency success at both the field and headquarters level, in order to replicate these more broadly through the GHI. PEPFAR is also working to emphasize the core competencies of each agency. By achieving better coordination and building upon the strengths of U.S. personnel, we can maximize our country-level impact in all of our U.S. programs.

Conclusion

Once again, Madam Chairwoman and Ranking Member Granger, I appreciate the Subcommittee's strong support. I look forward to our dialogue.

Ambassador Eric Goosby, U.S. Global AIDS Coordinator

Term of Appointment: 06/23/2009 to present

Ambassador Eric Goosby serves as the United States Global AIDS Coordinator, leading all U.S. Government international HIV/AIDS efforts. In this role, Ambassador Goosby oversees implementation of the U.S. President's Emergency Plan for AIDS Relief (PEPFAR), as well as U.S. Government engagement with the Global Fund to Fight AIDS, Tuberculosis and Malaria.

Ambassador Goosby served as CEO and Chief Medical Officer of Pangea Global AIDS Foundation from 2001 to June 2009. At present, he is also Professor of Clinical Medicine at the University of California, San Francisco. Ambassador Goosby has played a key role in the development and implementation of HIV/AIDS national treatment scale-up plans in South Africa, Rwanda, China, and Ukraine. He focuses his expertise on the scale-up of sustainable HIV/AIDS treatment capacity, including the delivery of HIV antiretroviral drugs, within existing healthcare systems. Ambassador Goosby has extensive international experience in the development of treatment guidelines for use of antiretroviral therapies, clinical mentoring and training of health professionals, and the design and implementation of local models of care for HIV/AIDS. He has worked closely with international partners on the development of successful HIV/AIDS treatment and treatment-based prevention strategies for high-risk populations.

Ambassador Goosby has over 25 years of experience with HIV/AIDS, ranging from his early years treating patients at San Francisco General Hospital when AIDS first emerged, to engagement at the highest level of policy leadership. As the first Director of the Ryan White Care Act at the U.S. Department of Health and Human Services, Ambassador Goosby helped develop HIV/AIDS delivery systems in the United States.

During the Clinton Administration, he served as Deputy Director of the White House National AIDS Policy Office and Director of the Office of HIV/AIDS Policy of the U.S. Department of Health and Human Services. Ambassador Goosby has longstanding working relationships with leading multilateral organizations, including UNAIDS, the Global Fund and the World Health Organization.

June 23, 2009

Mrs. LOWEY. Thank you.

Ms. Steele, your full written statement will be placed in the record. Please feel free to summarize your oral statement so we can get to questions. Thank you very much.

Ms. STEELE. Thank you.

Chairwoman Lowey, Ranking Member Granger, thank you very much for inviting me to testify on the President's Fiscal Year 2011 Budget Request for Global Health and Child Survival.

As I begin, on behalf of USAID's staff and the people we serve, I want to thank you for your long-standing support for global health. As a result of your support, the U.S. Government stands as a leader in the health area; and as a result of your support, we have made profound differences in the lives and welfare and in the health of the world's poor.

As we implement the President's Global Health Initiative, we once again count on your support. The GHI will build upon the successes of health that you have supported in the past years; and I want to go over some of them, as you have already done, Chairman Lowey.

We have remarkable successes in PEPFAR, as Ambassador Goosby has talked about. We have equally remarkable successes in malaria. In 2009, we have reached, after 3 and a half years, 50 million people in Africa with prevention and treatment measures. In six African countries, we have seen substantial reductions in under-5 mortality, from 19 to 36 percent. A large part of the reduction in under-5 mortality has been due to measures that we have done in malaria.

We have also made significant progress in neglected tropical diseases. Since 2006, we have delivered over 221 million treatments to over 55 million people; and we have reduced the cost of treatment by 41 percent. We have worked with the private sector and have received over a billion dollars to date in free drugs from the private sector.

Our progress in TB has also been impressive. By the end of 2008, the prevalence rate of TB had fallen by 26 percent in TB countries where we have been working, compared to 10 years ago.

Our progress in family planning is also impressive. Through increased access and voluntary family planning services, modern contraceptive use among women of reproductive age in the developing world has increased from under 10 percent in the 1960s to 43 percent today. In harmony with the desired family size, the average number of children per woman has fallen from over 6 percent to almost 3. We have also continued to see increases in the proportion of births spaced 3 or more years apart, as well as seeing declines in the proportion of young women having their first birth before the age 18.

In maternal and child health, we have made impressive gains. We have reduced under-5 mortality to 8.8 million children. In fact, there were 15 million child deaths in the 1980s. This represents almost 8 million child lives saved, and that is a tremendous accomplishment.

While globally we have not made much impact in reducing maternal death, in the countries in which USAID has worked we have

seen significant reductions in maternal deaths in the range of 20 to 50 percent over the last 10 years.

However, as you know the challenges remain. Today, 530,000 women still die from pregnancy related deaths. Over 6 million out of the 8 million children under age 5 die from causes that are easily preventable, causes such as diarrhea, pneumonia, malaria, complications related to birth, and malnutrition. In fact, maternal and child malnutrition contributes to 3 and a half million child deaths every year.

There are still 9 million new cases of TB, with 1.7 million deaths. Nine hundred thousand people die from malaria. We still see 52 million unintended pregnancies occur in the world today, and 400,000 people are disabled by tropical diseases for which simple treatments exist.

The President launched the Global Health Initiative in May last year; and the Global Health Initiative is intended to achieve greater impact than we have today, building upon the successes that we have accomplished. Through integration, which Chairwoman Lowey has talked about, we intend to be more efficient in the use of our resources. We intend to link services in the same place because we are working with the same service provider. We intend to integrate activities that relate to each other in service delivery. We want to achieve sustainability so that a woman who is treated through programs we support today will continue to receive the same high-quality service 5 years from now. We will implement a woman-centered approach that addresses the barriers that keep women from achieving improvements in their own and their families' health.

We will invest heavily in monitoring and evaluation to increase transparency, accountability, and learning. The GHI will promote investments in research and innovation to scale up proven interventions and explore new ways of providing health services.

We will continue to interact closely with other development partners, both bilateral and multilateral, including faith-based organizations and community-based organizations. We believe that by working together more effectively we will be able to build upon each other's strengths and together we will accomplish more than if we work separately. We will design and implement health programs within the framework of priorities identified by our partner countries.

To do all of this, we will work in collaboration with other U.S. Government agencies, such as CDC, NIH, Peace Corps, and the State Department.

We have requested \$3 billion in order to be able to accomplish the goals that we have set under the Global Health Initiative. This includes \$90 million for maternal and child health, which includes nutrition at \$200 million. We hope to see a reduction in maternal mortality by 360,000 women's lives saved by 2014. We hope to see a reduction in under-5 mortality by 3 million, and we hope to reduce under-nutrition by 30 percent.

We are requesting \$590 million for family planning and reproductive health, and by the end of GHI would like to see 54 million unintended pregnancies prevented. We are requesting \$618 million from malaria so that by the end of 2014 we will see the reduction in the burden of malaria by 50 percent for 450 million people. This

would include starting malaria programs in Nigeria and D.R. Congo.

We are requesting \$230 million for TB so that we can save by the end of the GHI 1.3 million lives.

We are requesting \$155 million for NTD in order to reduce the prevalence of seven major NTDs by half among 70 percent of the affected population.

In 2005, we asked for your support to be able to change our model in malaria, and you provided us that support. As a result of that, we have delivered to you some of the most outstanding achievements in global health today. We are asking for the same support today to save many more millions of lives using the new business model of the Global Health Initiative.

Thank you.

[The information follows:]

**GLORIA STEELE
SENIOR DEPUTY ASSISTANT ADMINISTRATOR FOR GLOBAL HEALTH
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
BEFORE THE
SUBCOMMITTEE ON STATE, FOREIGN OPERATIONS
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES
WASHINGTON, DC
March 23, 2010**

FY 2011 GLOBAL HEALTH AND CHILD SURVIVAL BUDGET REQUEST

Introduction

Chairwoman Lowey, Representative Granger, distinguished members, thank you for inviting me to testify on the FY 2011 Global Health and Child Survival (GH CS) budget request. Before I begin, on behalf of my staff at USAID and the people we serve, I want to commend the strong leadership of this Committee, and thank members of Congress for your longstanding support of health programs.

The U.S. Agency for International Development (USAID) is the principal U.S. agency providing development and humanitarian assistance to the developing world in more than 100 countries. At the country level, USAID works hand in hand with national programs and partners furthering country-driven programs.

Our health programs are complemented by additional USAID investments that address poverty and hardship, including emergency food aid and assistance to boost agricultural productivity; micro-credit programs providing access to money that wisely used can lift families out of poverty; girls' education programs to improve the health and prosperity of coming generations; water and sanitation programs that prevent disease; emergency relief and food assistance following disasters.

USAID works in close collaboration with other USG partners, as well as with other donors, non-governmental, faith-based and community organizations, the private sector, the United Nations, and host countries themselves. U.S. Government assistance in the health sector in developing countries has contributed to unprecedented public health success.

U.S. development assistance has brought dramatic improvements in health to much of the developing world in the last 50 years including marked declines in infant and child mortality, a narrowing of the gap between desired and actual family size, and increases in life expectancy that almost match the rates of developed countries, particularly in some countries in Asia and Latin America.

Background and Challenges

President Obama, Secretary Clinton and USAID Administrator Shah have challenged us to accelerate progress by connecting our work on high impact health programs through a comprehensive integrated approach that will help countries strengthen their health systems. This approach will extend even beyond health services, to harness the contributions of our investments in water and sanitation, in agriculture and food security, and in girls' education, among others, to achieve better health for families and children.

Over the past four decades, with the constant support of Congress, USAID has provided global leadership in maternal, newborn, and child survival. USAID programs have contributed to substantially reducing child mortality in over thirty countries. Globally, nearly eight million children's lives are being saved each year through evidence-based health interventions that address major causes of childhood mortality; USAID has supported much of the research that identified and proved the effectiveness of these high impact interventions, including Oral Rehydration Therapy, vitamin A, zinc treatment for child diarrheal illness, to community treatment of pneumonia and essential newborn care.

While progress has been made, urgent health challenges remain. Global maternal mortality rates have remained unchanged, and today, 530,000 women still die each year from pregnancy-related causes; 6 million children under the age of 5 continue to die each year from preventable causes; over 900,000 (mostly children) still die from malaria; there are still 9 million new cases of TB with 1.7 million deaths each year; 52 million unwanted pregnancies occur annually; and millions are disabled by tropical diseases for which simple treatment exists.

Global Health Initiative (GHI)

Through the whole-of-government Global Health Initiative (GHI), the United States will invest \$63 billion over six years to help the approximately 80 partner countries where the U.S. Government provides health assistance to improve health outcomes, with a particular focus on improving the health of women, newborns and children. The GHI is a global commitment to invest in healthy and productive lives, building off of and expanding the U.S. government's successes in addressing specific diseases and health conditions. Addressing wide-ranging health needs in partnership with governments, communities and other partners represents an ambitious agenda that can be met only if we work together, aligned toward common goals, with a commitment to fundamentally improve the way we do business.

The GHI aims to maximize the sustainable health impact the United States achieves for every dollar invested. The GHI will deliver on that commitment through an interagency business model based on core GHI principles: implementing a woman- and girl-centered approach; increasing impact and efficiency through strategic coordination and integration; strengthening and leveraging key partnerships, multilateral organizations, and private contributions; encouraging country ownership and investing in country-led plans and health systems; improving learning through rigorous metrics, monitoring and evaluation; and promoting research and innovation.

Through this comprehensive approach the GHI will build on the US's successful record in global health, and take these remarkable achievements to the next level by further accelerating progress and investing in a more lasting and leveraged approach to health delivery and health systems.

We in USAID are proud to be working with our USG and country partners in collaboration with Congress to address the goals and objectives of the Global Health Initiative.

FY 2011 Request

Appropriated funding for the Global Health and Child Survival (GHCS) account has increased dramatically since the inception of the account, thanks to Congressional support that recognizes the on-the-ground successes of USAID's health programs. The FY 2011 request of \$3.0 billion for USAID is a substantial increase from the FY 2010 enacted level of \$2.1 billion. Funds will expand basic health services and strengthen national health systems which are key investments that significantly improve people's health, especially that of women, children, and other vulnerable populations. USAID will continue to focus on scaling-up proven interventions that respond effectively and efficiently to the largest public health challenges and developing key life-saving technologies for the future.

The FY 2011 request of \$3.0 billion includes, \$900 million for Maternal and Child Health and Nutrition, \$680 million for Malaria, \$590 million for Family Planning and Reproductive Health, \$350 million for HIV/AIDS, \$230 million for Tuberculosis, \$155 million for Neglected Tropical Diseases, \$75 million for Pandemic Influenza, \$18 million for Other Public Health Threats, and \$15 million for Vulnerable Children. With this funding we will also continue to scale up cross-cutting objectives, such as, health systems strengthening, integration, building partnerships, research, and innovation.

Maternal and Child Health including Nutrition: is \$900 million. To scale up and deliver health interventions that have the potential to substantially reduce maternal and under-five mortality. Allocations to countries are based on magnitude and severity of maternal and under-five mortality, and operational factors, including country commitment, that predict program success. Every year, 8.8 million children die in the developing world; approximately 2/3 of these deaths are from preventable disease and malnutrition. In addition, 530,000 mothers die every year from complications related to pregnancy or childbirth, and for every woman who dies, 20 more suffer injury, infection or disease. MCH activities will be integrated with family planning programs in all countries; with PEPFAR's investments in strengthening prevention of mother-to-child transmission in countries with generalized HIV epidemics and follow-up of HIV-positive mothers and HIV-exposed and infected children; with safe blood programs; and with PMI's investments in bed net provision and treatment of pregnant women, infants and children.

By developing and implementing high-impact, evidence-based interventions, delivered at low cost USAID's maternal health programs have helped reduce maternal mortality in 15 countries by 9 to 48 percent since the late 1980s. In 11 of these countries newborn mortality also decreased by 16 to 42 percent. With USAID support, countries as diverse as Nepal, Cambodia, Ethiopia, Madagascar, Tanzania, and Afghanistan have reduced under-five mortality by 25

percent in 5 to 7 years. In the past year, USAD introduced a number of new high-impact interventions including:

- post-partum hemorrhage prevention and management and active management of the third stage of labor (AMSTL) in 16 of the 30 priority countries, to address the major cause of maternal mortality;
- a package of essential newborn care preventive interventions that can be used in home births as well as facilities in 19 countries - USAID-supported research has shown that this package of preventive newborn care can reduce neonatal mortality by about one-third;
- zinc for treatment of child diarrhea in 10 countries; and
- point-of-use drinking water disinfection for prevention of child diarrhea in 10 countries.

Our MCH program will scale up efforts to combat maternal mortality and apply a women-focused “dual-track” approach, rapidly expanding coverage of existing life-saving interventions that can be provided now (such as prevention and management of post-partum hemorrhage, the leading cause of maternal mortality in the developing world; family planning, anemia reduction; and clean delivery), with simultaneous investment in building the longer-term human resource and system capability required to provide comprehensive obstetric care.

In child health, a cumulative total of three million lives of children under age five will be saved over the period of 2009-2014 by reaching increased numbers of the most-vulnerable families with high-impact interventions, including essential newborn care; immunization; prevention and treatment of diarrhea, pneumonia and newborn infections; improved nutrition; point-of-use water treatment and other interventions to improve household level water supply, sanitation, and hygiene.

Among the important lessons learned through USAID’s Maternal and Child Health programming are: that MCH is universally regarded as a core function of the health care system. As a result, USAID’s MCH programs have consistently invested in approaches to strengthen key elements of health systems, from health care capacity building to quality assurance methods, to drug management and logistic systems to performance-based financing.

In countries with high mortality rates and weak health systems, reducing mortality requires bringing a basic set of high impact services as close as possible to the people who need those services. For this reason, USAID’s Maternal and Child Health programs have pioneered, and FY 11 funding will strengthen and expand community-based approaches such as treatment of child pneumonia and newborn sepsis, misoprostol to prevent post-partum hemorrhage in home deliveries, and behavior change programs to promote breastfeeding. These approaches are often delivered through partnerships with NGOs, but need to be taken to scale as components of national health sector programs.

Nutrition: is \$200 million. Since 1990, USAID investments have helped contribute to a reduction in underweight children from one in three to one in four today. Maternal and child undernutrition contributes to more child deaths—3.5 million—every year than any other cause. Undernutrition increases both susceptibility to and severity of common illnesses and infectious diseases. Undernutrition during a child’s early years can lead to permanent damages to mental

and physical development, undermining investments in health, education, and economic growth. Investing in nutrition at large scale is vital to our objectives of reducing mortality and hunger.

Our continued support to vitamin A supplementation programs have protected millions of children and reached global coverage of over 70%. One of the key lessons learned from our decades of work in nutrition is that improving undernutrition at a large scale requires a comprehensive effort that involves all sectors, and this is the approach we will be pursuing as part of the USG Global Hunger and Food Security Initiative (GHFSI). As part of this initiative and the Global Health Initiative, USAID will work with countries with a high burden of undernutrition to bring high-impact, evidence-based nutrition interventions to scale and to refine and test innovative approaches such as biofortification. This will include preventing undernutrition for young children and mothers, improving diet quality and diversity, targeting micronutrient supplementation, and managing acute undernutrition at the community level. To support a country-led process, we will also invest in capacity building, strengthening the policy enabling environment, monitoring and evaluation systems, and private sector partnerships for nutrition.

The global community is mobilized around improving nutrition as part of a comprehensive food security agenda. We have recent documented evidence of the highest impact interventions (Lancet) and what it will cost to achieve high coverage (World Bank). We know what to do and we now have global commitment to do it at scale. Our approach focuses on prevention, cost-effectiveness, and sustainability. Preventing under-nutrition was identified as one of the most cost-effective interventions in global health by the Copenhagen Consensus. We will have a balanced approach of preventing under-nutrition in the targeted window of opportunity (9 to 24 months) with nutrition service delivery (supplementation and treatment of severe acute under-nutrition). This is the “window of opportunity” (from pregnancy to two years old) for a high priority package of evidence-based and cost-effective health and nutrition interventions to reduce death and disease and avoid irreversible harm. If implemented at scale, and supported by appropriate policies, these effective interventions can significantly improve global nutrition especially among the most vulnerable – undernourished mothers and children.

FY 2011 funding increases will enable the development of robust nutrition plans and comprehensive strategies that are developed in consultation with key stakeholders and led by countries. These funding increases are consolidated in priority countries that are in line with both GHFSI and GHI priorities.

Family Planning and Reproductive Health: is \$590 million. Programs will continue to improve and expand access to high-quality voluntary family planning services and information, as well as other reproductive health care. Annually, there are 52 million unintended pregnancies and there are 22 million abortions. Family planning (FP) is an essential health intervention for mothers and children, contributing to reduced maternal mortality and reduced infant mortality (through better birth spacing). Activities will support the key elements of successful FP programs, including: creating demand for and supply of modern family planning services through behavior change communication; commodity supply and logistics; service delivery; policy analysis and planning; biomedical, social science, and program research; knowledge management; and monitoring and evaluation. Priority areas include: FP/MCH and FP/HIV

integration; contraceptive security; community-based approaches for family planning; expanding access to long-acting and permanent prevention methods, especially implants; promoting healthy birth spacing; and cross-cutting issues of gender, youth, and equity.

In more than 30 USAID-assisted countries, the number of married women of reproductive age using a modern contraceptive method increased to 110 million, this presents nearly a 30% increase since 2000. . Survey data collected this past year show three countries with substantial increases in modern contraceptive prevalence (Kenya: 32-39% over five years; Madagascar: 18-29% over five years; and Rwanda: 6-27% over seven years). Each of these countries has had priority status for USAID's family planning program – and in each, funding has at least doubled since 2002. Key to increasing contraceptive use has been the expansion of services available through community health workers through recruitment, training, and task-shifting; strengthening of the supply chain; and increased government commitment to family planning.

Continued progress requires: (a) sharing lessons learned and best practices with other countries especially within the regions, (b) expanding community-based approaches, including the introduction of the new “depo-in-unject” technology, (c) expanding access to longer-acting methods of family planning to complement temporary methods, (d) integrate family planning with maternal and child health services, especially as part of post-partum and community-based services with HIV programs when appropriate, (e) elevating family planning as part of MDG-5b on the country and donor agenda, and (f) strengthening the NGO and private sector role in providing and promoting family planning information and services.

HIV/AIDS: is \$350 million. Funding contributes to the President's Emergency Plan for AIDS Relief (PEPFAR) to focus on HIV/AIDS treatment, prevention, and care interventions in countries worldwide - including support for orphans and vulnerable children affected by the epidemic. Nearly 3 million people are infected with HIV each year, and AIDS is the leading cause of death of women of reproductive age around the world. USAID contributes to the interagency fight against the HIV/AIDS epidemic by, providing critical technical leadership, conducting essential operational research, and serving as a critical implementing agency under PEPFAR. USAID collaborates closely with the Office of the Global AIDS Coordinator and other U.S. government agencies to ensure that HIV/AIDS activities implemented through all agencies and funded through all accounts are part of a unified, 'one USG' strategy on HIV/AIDS.

In FY 2011, HIV/AIDS resources will continue to provide technical assistance to countries for HIV/AIDS through prevention, care, and treatment programs, including: prevention of mother-to-child transmission (PMTCT); injection safety; palliative and orphan care; and treatment. USAID will continue to work through PEPFAR to identify practical solutions to important issues facing HIV/AIDS programs worldwide. For example, with USAID support, the first clinical trial to test the effectiveness of an ARV-based microbicide was launched in 2007. When the trial results are made public this July, it will be the first trial completed and providing data on the effectiveness of ARVs used in microbicides.

One of USAID's core strengths in the USG response to the global AIDS epidemic is its ability to support multisectoral responses that address the widespread impact of the disease outside the

health sector in high-prevalence countries. In these countries, USAID is supporting programs in areas such as agriculture, education, and economic development. These programs “wrap around” PEPFAR-supported HIV/AIDS interventions and mutually support the objective of reducing the impact of the pandemic on nations, communities, families, and individuals.

Malaria: is \$680 million. The President’s Malaria Initiative (PMI) will continue to support host countries’ national malaria control programs and strengthen local capacity to expand use of four highly effective malaria prevention and treatment measures. These measures include indoor residual spraying (IRS), use of long-lasting insecticide-treated bed nets (ITNs), application of artemisinin-based combination therapies (ACTs), and implementation of interventions to address malaria in pregnancy (intermittent preventive treatment or IPTp). Annually, 900,000 people die of malaria and 300 million people are newly infected. This level of funding will allow USAID to dramatically expand malaria programs in Nigeria and the Democratic Republic of Congo.

The program will focus on reaching 85% of pregnant women and children under five in 15 focus countries in Africa. In addition, the PMI will continue to support the development of malaria vaccine candidates, new malaria drugs and other malaria-related research with multilateral donors, including the World Health Organization and international consortia such as Roll Back Malaria. Allocation to countries is based on malaria burden, existing infrastructure, government commitment, and availability of Global Fund or other donor funding. The Millennium Development Goals for malaria can be achieved if we sustain and broaden our efforts. And as we continue to make progress in the fight against malaria, we make important gains towards other Millennium Development Goals (1, 4, 5, and 6)

In the past year, the President’s Malaria Initiative, led by USAID and implemented jointly with the Department of Health and Human Services, the Centers for Disease Control and others, reached more than 50 million people.

Since 2006, substantial progress has been made in the scaling up of training, host country capacity building, and malaria prevention and treatment measures across the 15 PMI focus countries in collaboration with national malaria control programs (NMCPs) and other donors. During the fourth year of implementation, the U.S. reached more than 50 million people with malaria prevention and treatment measures. In 2009, PMI procured more than 15 million long-lasting mosquito nets for free distribution to pregnant women and young children and a total of 29 million anti-malarial drug treatments. Indoor residual spraying activities helped protect more than 27 million persons at risk of malaria. In addition, in 2009, PMI trained tens of thousands of people in key aspects of malaria control, including more than 41,000 health workers in malaria case management. In all 15 focus countries, PMI provided support to improve the pharmaceutical management of anti-malarials and other essential medicines.

Evidence of significant reductions in malaria-related illnesses and childhood deaths are already being seen. In Senegal, a 29 percent reduction in deaths in children under five was recorded in the 2008 national household survey compared with the 2005 Demographic and Health Survey (DHS). During the same period, household ownership of one or more mosquito nets rose from 36 percent to 60 percent.

Zambia has also seen dramatic reductions in mortality rates and malaria infections. A 2007 DHS survey showed a 29 percent reduction in deaths in children under five, compared with 2002. According to 2006 and 2008 nationwide Malaria Indicator Surveys, there was a 53 percent decline in malaria prevalence and a 68 percent decline in severe anemia in children under five, which is closely associated with malaria in this age group. Anemia is a primary cause of death and disability in the developing world and it exerts a devastating effect on childhood development and cognition.

In Rwanda, childhood deaths fell 32 percent from 2005 to 2008, according to DHS surveys. During the same period, household ownership of one or more mosquito nets rose from 13 percent to 57 percent. Regional and District-level impact has also been reported from Mozambique, Tanzania, and Uganda.

Partnerships with host country governments, the Global Fund to Fight AIDS, Tuberculosis and Malaria, the World Bank Booster Program for Malaria Control, the Bill and Melinda Gates Foundation, and others have made these successes possible. Successful partnerships with faith-based and community organizations are bringing tremendous value to malaria control efforts because of the credibility these groups have within their communities, their ability to reach the grassroots level, and their capacity to mobilize significant numbers of volunteers. PMI has supported more than 150 nonprofit organizations, over 40 of which are faith based.

Neglected Tropical Diseases (NTDs): is \$155 million: NTD programs will fund training of community-based and professional health care workers and the targeted mass drug administration of drugs to reduce the burden of seven debilitating NTDs, including onchocerciasis (river blindness), trachoma, lymphatic filariasis, schistosomiasis, and three soil-transmitted helminthes. Every year, 400,000 people die from NTDs; 1 billion suffer from one or more tropical diseases, causing severe disability and hindering cognitive development. These diseases stunt the physical and cognitive development of children, contribute to malnutrition, can cause blindness, and have other disabling effects. Building on this strong base of scaled-up integrated programs, this request also includes funding to initiate programs to targeted elimination of one or more of the diseases. Allocations to countries are based on the incidence of the targeted NTDs.

When the U.S. Congress launched the USAID integrated NTD control project in 2006, it represented one the first large-scale effort to integrate existing disease-specific treatment programs to care for millions of the world's poorest people.

Since 2006, USAID has supported the delivery of over 221 million NTD treatments through integrated programs to over 55 million people, and is using its country-level experiences to contribute to the development of global norms and standards for integrated NTD control. The project is currently working with local partners and Ministries of Health to provide mass drug administration in fourteen countries—Bangladesh, Burkina Faso, Democratic Republic of Congo, Ghana, Haiti, Mali, Nepal, Niger, Sierra Leone, Southern Sudan, Tanzania, and Uganda.

Tuberculosis (TB): is \$230 million. USAID focuses on assisting national TB control programs to deliver high-quality services to diagnose and treat TB, a vital measure to prevent the development of drug resistant disease. USAID programs have made important contributions to progress in many countries, including those with a high burden of disease such as India, Bangladesh, Kenya, Pakistan, and The Philippines. Globally, 1.7 million people die from TB and there are 9.2 million new cases of TB each year. Annually, there are approximately 500,000 cases of multi-drug resistant (MDR).

Last year, more than 1.2 million TB patients successfully completed treatment in 20 USAID priority countries, resulting in more than 600,000 lives saved. USAID will continue to scale up TB activities in priority countries, including strengthening laboratories, expanding the WHO recommended treatment strategy, and mobilizing the private sector as partners in TB programs. Country level expansion and strengthening of the Stop TB Strategy will continue to be the focal point of USAID's TB program including increasing and strengthening human resources to support Directly Observed Treatment, Short Course (DOTS) implementation, preventing and treating TB/HIV as well as partnering with the private sector on DOTS. In particular, activities to address MDR and extensively drug resistant TB will continue to be accelerated, including the expansion of diagnosis and treatment, and infection control measures, and support to the Green Light committee ensures that country programs meet international standards. USAID collaborates with the Office of the Global AIDS Coordinator to expand coverage of TB/HIV co-infection interventions including HIV testing of TB patients and effective referral, TB screening of HIV patients and implementation of intensified case finding for TB, TB infection control and, where appropriate, Isoniazid Preventive Therapy.

Managing the quality, affordability, delivery and provision of anti-TB drugs is another vital issue. USAID is a significant leader in improving TB drug management and supports the Stop TB Partnership's Global Drug Facility (GDF) which provides quality assured drugs to countries in need. USAID also provides technical assistance to help countries prepare proposals to the Global Fund and ensures the success of Global Fund grants once they have been approved. Programs financed through the Global Fund have provided treatment to six million people with active TB and 1.8 million TB/HIV services by December 2009.

Pandemic Influenza: is \$75 million: USAID is intensely focused on efforts to contain and control H5N1 and other emerging diseases of animal origin that pose significant public health threats such as H1N1. Programs will focus on mitigating the possibility that a highly virulent virus such as H5N1 could develop into a pandemic while responding to the current H1N1 influenza pandemic, strengthening countries' ability to detect cases and conduct appropriate control measures. In particular, activities will expand surveillance to address the role of wildlife in the emergence and spread of new pathogens; enhance field epidemiological training; strengthen laboratory capability to address infectious disease threats; broaden ongoing efforts to prevent H5N1 transmission; and strengthen national capacities to prepare for the emergence and spread of a pandemic capable.

USAID's program for emerging pandemic threats program has had marked successes in rolling back the threat posed by the highly pathogenic H5N1 virus. Worldwide there have been significant downturns in the numbers of outbreaks involving poultry and humans, and a dramatic reduction in the overall number of countries affected. USAID will continue efforts initiated in 2008 with a coalition of UN systems partners, the International Federation of Red Cross and Red Crescent Societies, non-governmental organizations, and the private sector to develop country-level plans to limit excess mortality that would occur during a pandemic. About 40 percent of our AI funds would be targeted to support these efforts.

Other Public Health Threats: is \$18 million. USAID will provide a robust response to infectious disease outbreaks, provide broad based improvements in infectious disease surveillance including hemorrhagic dengue, expand efforts to control antimicrobial resistance, and global activities to monitor the quality of drugs.

Vulnerable Children: is \$15 million. Vulnerable Children programs include the Displaced Children and Orphans Fund (DCOF) and other program activities. DCOF supports projects that strengthen the economic capacity of vulnerable families to protect and provide for the needs of their children, strengthen national child protection systems, and facilitate family reunification and social reintegration of children separated during armed conflict, including child soldiers, street children and institutionalized children. The Agency's Child Blindness Program will provide eye health education, comprehensive vision screening, refractive error correction, sight-restoring surgery, and education for blind children.

In the past year, more than 137,000 children and adults in 17 countries benefited from DCOF activities, and more than 1 million received vision care through the Child Blindness Program.

Strengthening Health Systems

Achieving impact while investing in health systems is challenging, given the low levels of resources available in most countries with high fertility and mortality rates. USAID is recognized as a major contributor to approaches that strengthen key elements of health systems, while linking investments to improved health outcomes. Our efforts have made important contributions in several critical dimensions of health systems, including:

- *Quality improvement* – USAID has been a global leader in the application of modern quality improvement approaches to health and family planning programs in developing countries. These approaches are being used to improve basic services, such as reducing delays in management of life-threatening obstetric complications and improving care of severely ill children; in hospitals in Nicaragua, this approach reduced child deaths from malaria by 86 percent, from diarrhea by 57 percent, and from pneumonia by 38 percent.
- *Drug and commodity supply and logistics* – USAID is a major supporter of systems that provide, distribute, and track contraceptive, anti-malarial and other essential public health commodities. Technical assistance in pharmaceutical management and/or supply chain strengthening has been provided in 39 countries. For new products, like zinc for treatment of diarrhea, USAID works with the U.S. Pharmacopoeia to develop and improve quality and manufacturing standards needed to allow international procurement

by UNICEF and countries, and also works with manufacturers to assure adequate quantity and quality of products required by programs.

- *Financing* – USAID worked with WHO and the World Bank to develop “National Health Accounts,” tools which for the first time allow country governments and their partners to see all the resources available for health – not just from government, but from donors and from families themselves. These important decision-making tools are now being utilized in approximately 70 countries, with direct USAID assistance to 26 of these. Another important approach is technical assistance to community-based insurance plans, or “*mutuelles*,” which is an innovative way to finance health care in Africa. These community-based plans now exist in about a dozen African countries; in Rwanda alone, where USAID is providing assistance, by 2006 there were over 300 community-based plans serving over 3.1 million people (or 40 percent of the population).

We will further integrate health systems strengthening (HSS) approaches throughout programming to increase the capacity of partner countries to manage, implement, and eventually finance health systems. Also, we will continue to leverage our resources whenever possible and maximize the effectiveness of all programs we design and implement.

Integration

To build strong and cost-effective platforms for broader primary health care services, we implement integrated health programs, especially maternal child health and family planning programs in almost every country where we work.

One example is the delivery of antenatal, delivery, and post-partum care services. We know that good antenatal care – including promotion of adequate nutrition and anemia prevention, detection and treatment of infections and complications, and planning for adequate care at birth – can have important positive effects on outcomes for both women and their babies. It is also an important opportunity to begin discussing family planning options with women who want to delay pregnancy. In areas where malaria is prevalent, we promote antenatal care as a key opportunity to provide anti-malarial treatment and promote use of insecticide-treated nets, protecting women from anemia and illness, and protecting their unborn children from the low birth weight caused by maternal malaria infection. In areas where HIV is prevalent, antenatal care is one of the best opportunities to offer testing and counseling services and identify mothers requiring anti-retroviral treatment or prevention of mother-to-child transmission of HIV (PMTCT).

High quality care at delivery is one of the most critical interventions for the survival and health of mothers and newborns; it prevents or resolves life-threatening complications and provides essential immediate care to newborns who need it. It also provides a key opportunity for PMTCT. We are now increasingly extending care into the post-partum period, allowing for the detection and treatment of serious maternal and newborn complications and better promotion of breastfeeding and essential newborn care. It allows us the opportunity to conduct early infant diagnosis and start cotrimoxazole preventive therapy which has integrated benefits for HIV-exposed children of prevention of death from pneumonia, TB, and malaria. This post-partum period is also one of the most important opportunities to counsel women in voluntary family

planning methods. Thus, in practice, our MCH/FP programs are delivered holistically, giving greater impact, greater sustainability, and greater support for other important health programs.

The same is true for the community-based program approaches that we support in areas where formal health services cannot meet all basic health needs. We support outreach programs that often deliver multiple interventions including immunization of mothers and children, vitamin A and iron supplements, insecticide-treated bednet distribution, and antenatal care. We support community health worker and social marketing programs that often deliver family planning advice and commodities, condoms, and information for HIV prevention, oral rehydration, and increasingly treatment for malaria and other child illnesses. We support these types of programs for women's groups which also often engage in income-generating and micro-finance activities that enhance their effectiveness and influence in their communities.

Such integrated approaches reap the benefits of synergies among specific interventions and parts of our health programs. They also maximize the potential for sustainability by making the most effective use of each contact of services with families.

Multilateral Engagement

USAID continues to provide technical assistance to the Global Fund to Fight AIDS, Tuberculosis, and Malaria. The U.S. Government is the largest donor to the Global Fund with more than \$4.3 billion in (or more than 27% of total) contributions.

The Global Alliance for Vaccines and Immunization (GAVI) is a public-private partnership created in 2000 to save children's lives and protect people's health by increasing access to immunization in poor countries. GAVI is a model that shows us that through partnerships we can scale up simple and cost-effective interventions that can save millions of lives. The U.S. is one of the two original government donors that provided contributions to the GAVI Alliance through the GAVI fund and we expect to continue this collaboration in FY2011. Between 2000 and 2009, USAID has directed \$569 million to the GAVI effort. Since the inception of GAVI in 2000, USAID has always represented the constituency that includes the United States of America, Australia and Canada, on the GAVI Alliance Board, except for a two-year period. USAID currently sits on GAVI's Board, the Board's Executive Committee, and the Board's program and policy committee. USAID shapes GAVI policy through its involvement on the GAVI Alliance Board and various committees and USAID provides technical guidance. Through GAVI, 250 million children have been immunized, saving 5.4 million premature deaths over the last decade.

Through the Global Alliance for Improved Nutrition (GAIN), USAID is directly supporting 22 programs in 19 countries around the world that fortify staple foods and condiments --such as fish sauce in Vietnam and cottonseed oil in Burkina Faso -- with iron, iodine, Vitamin A and other micronutrients. Food fortification is critical for health and is cost-effective. Every dollar spent on Vitamin A fortification returns \$7 dollars in increased wages and decreased disability. A dollar spent on iodized salt returns \$28 dollars, and on iron fortification, \$84 dollars.

NGOs and FBOs

Nongovernmental, faith-based, and community-based organizations (NGOs, FBOs, and CBOs) have strong bases of operations in underserved, rural areas where formal health services are limited. The key to saving lives, especially children, is to expand proven approaches and interventions until they reach each and every child who needs them. USAID is expanding its reach through these organizations.

USAID Child Survival and Health Grants Program (CSHGP) focuses on innovative approaches and delivering operations research (OR) for high-impact maternal, newborn, and child health (MNCH) interventions. CSHGP currently supports 41 NGOs implementing 54 projects in 27 countries. Typical projects run 4-5 years with an average of 40,000 child beneficiaries in one district. Projects use a variety of integrated community-oriented strategies for household behavior change and improved service delivery.

Through support to these groups, PMI helps build local capacity and program sustainability and improves access to critical malaria prevention and treatment service at the community level. Due to their close contact with local residents, these organizations can facilitate behavior change communication activities to help families prevent and treat malaria. To date, PMI has supported nearly 200 nonprofit organizations; more than 45 of these are FBOs.

For example, PMI supported Senegal's National Malaria Control Programme (NMCP) to hold its first nationwide distribution of nearly 2.3 million free long-lasting ITNs to children under five in June and October 2009. This campaign involved nearly 20 different local and international organizations, including local and international NGOs, United Nations agencies, two different Red Cross affiliates, a manufacturer of long-lasting ITNs, and a World Bank-funded project. PMI contributed 380,000 nets and about 30 percent of the total operational costs. Advocacy by PMI attracted an additional 86,000 nets from the Canadian Red Cross, the Against Malaria Foundation, and the Sumitomo Chemical Company, as well as support for operations from World Vision and ChildFund Senegal.

PMI also partnered with local NGOs and FBOs to continue humanitarian services when the political crisis led to USG sanctions that prohibited direct support to the Government of Madagascar. During Madagascar's ITN mass distribution campaign, PMI supported two local FBOs to deliver 1 million long-lasting ITNs at the community level. PMI also partnered with and supported the Malagasy Red Cross to conduct indoor residual spraying in six health districts protecting more than 1,270,000 people.

Public-Private Partnerships

To maximize the impact of our health resources, USAID is leveraging monetary contributions, information, ideas and technology from the private sector. These public-private partnerships have dramatically increased our impact.

Through public-private partnerships, USAID estimates that over \$1 billion worth of drugs have been donated by research-based pharmaceutical partners, including GlaxoSmithKline, Merck, Johnson & Johnson, and Pfizer, for integrated NTD control in USAID-supported countries. Moving forward, USAID will scale-up the proven approach to integrated, community-based

delivery to the highest burden countries, sustaining high levels of population coverage and moving toward disease elimination for some of the targeted NTDs, including lymphatic filariasis globally and onchocerciasis in the Americas. USAID is exploring coordination with water and sanitation investments and links with malaria control programming to further accelerate progress toward elimination.

Top global companies and the PMI are working with the Government of Angola on an intensive technical training program to arm the country's malaria fighters with state-of-the-art mosquito surveillance and vector control techniques. This unique partnership between the private sector, Government of Angola and PMI provides an opportunity to build in country capacity to monitor malaria control interventions in Angola, building a foundation to develop an effective resistance management and monitoring strategy in Angola- areas in which the private sectors expertise can be leveraged.

The effort includes the Corporate Alliance on Malaria in Africa (CAMA), USAID's implementing partner Research Triangle Institute International (RTI) and the Global Business Coalition on HIV/AIDS, TB and Malaria. It is part of the Angola National Malaria Control Program's overall effort to scale-up malaria prevention and treatment services to reduce the health, social and economic burden resulting from the disease. Lead corporate sponsorship is by the Chevron Corporation, with additional private sector support from Halliburton, Bayer, Sumitomo Chemical, Cameron International and Vestergaard Frandsen.

Research

USAID employs a “research to use” strategy to guide its investment in innovations of low-cost and effective health products. Through its product development plans USAID closely monitors and facilitates concurrent research and introductions activities to accelerate the process from research to field implementation. Illustrative of this effort is USAID’s research investment in addressing sepsis. Of the estimated 8.8 million children under 5 that die each year – 3.7 million are newborn infants who die within the first four weeks after birth. Up to two-thirds of these deaths can be prevented through existing effective interventions delivered during pregnancy, childbirth and in the first hours, days and week after birth. A growing body of knowledge has shown that home visits by appropriately trained workers to provide newborn care can significantly reduce neonatal mortality even where health systems are weak.

USAID supported research documented in Bangladesh that Community Health Worker home visits involving a simple package of preventive and curative newborn care reduced newborn deaths by 34%. Few proven strategies to improve newborn survival have successfully been taken to scale in low-resource settings. This intervention, however, effectively used government and NGO infrastructures to facilitate a sustainable home-care approach. This study was honored as Lancet best paper of the Year. The three-year study in Sylhet, Bangladesh was conducted in partnership with Save the Children's Saving Newborn Lives program and Johns Hopkins University, a local NGO Shimantik, and the International Centre for Diarrhoeal Disease Research, Bangladesh (ICDDR). The result of this research contributed to evidence base for a new WHO/UNICEF recommendation for home visits. We are working to scale up this approach in other partner countries.

Based upon these study findings, the Government of Bangladesh (GOB), USAID and others are already implementing a large-scale community-based project (ACCESS) in 7 sub-districts to improve preventative newborn health in rural areas of Bangladesh. Within the next few months UNICEF in partnership with the GoB will begin to implement this approach in 14 districts. The new UNICEF program will also include a pilot of the community treatment approach of this study in 3 sub-districts with further plans to scale up in subsequent years.

In FY11, USAID will expand research into best practices, innovative technology, and other interventions that will allow for quick dissemination and scale-up of cost-effective services.

Conclusion

At USAID, we stand ready to bring to bear the full measure of our capabilities to the Global Health Initiative and its goal of achieving major improvements in health outcomes in the developing world. As you know, with the support of Congress, USAID has long track record developing and adapting appropriate health products and technical interventions, and supporting proof of principle field testing and effective and rapid introduction of new technologies in the field at scale.

And in addition to our extensive field experience and presence, USAID possesses in-house technical expertise in areas such as immunology, virology, nutrition, malaria, epidemiology, maternal health and child survival, HIV/AIDS, tuberculosis, influenza, family planning and reproductive health, water and sanitation, health systems strengthening, quality assurance, vulnerable children and behavioral change.

To address global health needs, we will continue to be strategic, but flexible and respond to programmatic gaps identified by a specific country. We will increase cooperation with governments, multilaterals, NGOs and the local private sector to assist host governments develop their own national health plans, identify jointly with the host countries and other donors places where our integrated resources can best support those plans, and contribute to collaborative monitoring of progress.

And we will strengthen the capacity of the private sector to provide community-based services/distributors to create sustainable service delivery and encourage social marketing and private sector providers to deliver community level curative and preventive services, including health franchising, individual health providers and pharmacies.

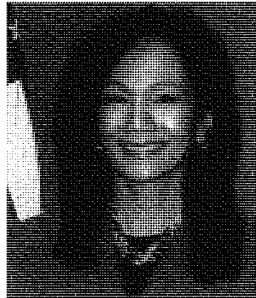
By doing so, the world can come closer to achieving the health Millennium Development Goals. Thank you.



BIOGRAPHY

Gloria D. Steele

Senior Deputy Assistant
Administrator
Global Health



Gloria D. Steele is the Senior Deputy Assistant Administrator for the Bureau for Global Health, U.S. Agency for International Development (USAID).

She assumed this position in January 2005 and is responsible for overseeing the operations and the financial and human resource management of the Bureau, which has a (direct and non-direct hire) staff of 240. Steele oversees the strategy, program development, and budgeting operations for the Bureau, which, in 2005, managed or co-managed \$1.5 billion. She also has oversight responsibilities for the Bureau's family planning and reproductive health programs and its efforts in providing field support and training of public health officers.

Prior to this position, Steele served as Senior Deputy Assistant Administrator for the Bureau for Europe and Eurasia. Other USAID assignments include seven years of work in the Bureau for Africa as an Agricultural Economist, and seven years in the Bureau for Science and Technology overseeing applied research on key rural development issues such as land tenure, access to agricultural credit, food security, and natural resource management.

Steele also served for one year in the Bureau for Policy and Program Coordination, where she led the development of policies related to food security.

From 1974-1980, she served as a management consultant to the Philippines' Minister of Agriculture. She taught business economics at Letran Graduate School for Business in Manila, Philippines, in 1979.

She received a Master of Science in agricultural economics from Kansas State University, and a Bachelor of Arts in business administration from Maryknoll College in the Philippines.

Mrs. LOWEY. Thank you to you both.

Over the past decade, the members of the G8 have prioritized poverty reduction and development on their annual agendas, with health a consistent top priority. As the world faces a global economic crisis, donor countries are finding it even harder to meet previous commitments. For example, Canada will make child survival and maternal health a central issue at this summer's G8 meeting but, at the same time, will likely reduce their commitment to HIV/AIDS programs.

If you could—whoever wants to go first—could you explain to us what steps will the U.S. take to ensure that donors do not rob Peter to pay Paul and walk away from existing commitments? And some have accused the U.S. of shifting priorities as the fiscal 2011 budget has a relatively small increase for HIV/AIDS and actually reduces the U.S. contribution to the Global Fund to fight AIDS, tuberculosis, and Malaria. Can you explain why this decision on the budget and why was the decision made on both bilateral and multilateral commitment for HIV/AIDS?

Dr. GOOSBY. Yes, Chairwoman. Excellent questions. I will get right to the core of the issues and dilemmas that we are confronted with.

In this time of economic severity, we have been put in a position of having to think smarter, be more efficient, look for efficiencies, et cetera. But we have also matured in our programs to the degree to which we now have efficiencies and platforms of care that we do not need to reproduce and scale up from the ground but add on to, look for additional opportunities based on those platforms to focus on new populations that are nearby, eliminate duplications, et cetera.

We are confident that with a rigorous look at how and where we are putting our prevention programs in particular in front of the movement of the virus through the population that we will be able to effectively expand the impact of our prevention structures within the countries that we are already committed in and indeed look for opportunities—prevention opportunities in countries that we have less robust prevention strategies.

In terms of the bilateral activity that you referred to with Canada, the maternal and child health issue is a huge issue. The MDGs, as you know, 3 and 4 focus on these. We have all been focused on this to try to respond to it.

The leading cause of death for women in child-bearing ages continues to be HIV/AIDS. So we will actually be approaching and focusing on maternal and child health through a more rigorous attempt to identify, diagnose, treat, and enter individuals around their HIV/AIDS needs.

We have seen drops in maternal mortality in Rwanda, in South Africa, and KwaZulu-Natal by those programs having an impact on maternal and child morbidity; and it is those types of synergies that we need to amplify and insist increase.

In terms of your final issue around global responsibility, it is the key dialogue that we have engaged with in every multilateral discussion we are in. I am leaving this afternoon, as you alluded, to engage in activities in The Hague around replenishment for the Global Fund. The Global Fund continues to be a conduit through

which countries with resources can move resources to countries without resources and continues to be complementary to our bilateral efforts and an essential ingredient in our ability to respond to what is, as you have both stated, an expanding unmet need. I think that our need to become more efficient, become less duplicative, look for opportunities to build on each other's programs affords a broad opportunity for us to again save resources during these economically severe times.

Finally, I would say that the call for global responsibility that is a shared responsibility which you both articulated in your testimonies is really what we do need to start talking about everywhere. We cannot do this alone as one bilateral effort. We need to look for every opportunity to start combining our resources differently, responsibly, with total visibility but differently in the way we add each other's resources on top of the other to actually expand the number of people who receive care and treatment.

So I would end with that.

Mrs. LOWEY. Thank you.

Did you want to add to that?

Ms. STEELE. Yes. In terms of the global responsibility, it is a major issue outside of HIV/AIDS; and, as with Ambassador Goosby, I will be traveling tonight to go to The Hague in an event that is organized by GAVI to get donors together to show their responsibility towards immunization. I think this is a very important event, and we are taking that very seriously.

Bilaterally, we have been working with Canada, with Japan in order to see what roles we can play, how we can divide up the responsibility so we do not duplicate the work, given our limited resources. I think the Global Health Initiative's emphasis on efficiency is very important in this regard.

If in fact our donors will begin to reduce their contributions, we need to be able to maximize the impact of our resources; we need to reduce the duplication within our own programs; we need to integrate our programs that need to be integrated; and we need to begin working on developing sustainability, beginning with developing health systems so that in the end, in the long run, our partner countries will begin to be able to carry out some of the functions or most of the functions themselves.

We are also working outside of the health sector with the economic growth sector. I think that it is important, in order for sustainability to occur, for the growth of the economy in our partner countries to happen. It is not realistic for them to continually depend on donor input in order to make their health systems function. They need to grow their economies so they can pay for their own services and their commodities in the long run.

Thank you.

Mrs. LOWEY. Before I turn to Ms. Granger, I don't know if you want to comment, but that depends on the tax system in the country as well.

Ms. STEELE. That is correct. And in our economic growth sector we are providing assistance in taxation, simplifying the tax procedures of the countries so that we can generate more taxes.

On the other end, we are working on issues of corruption to make sure that the taxes are used more effectively in the countries where we work.

Thank you.

Mrs. LOWEY. Thank you.

Ms. Granger.

Ms. GRANGER. Thank you.

I would like to discuss the Global Health Initiative's strategy to integrate health programs at the programming and procurement level.

The current conscience clause, as you know, was expanded by the Lantos-Hyde Act so that faith-based organizations could opt out of any HIV/AIDS program or activity when it has a religious or a moral objection. I have several questions.

First, how will the Global Health Initiative integrate family planning with HIV/AIDS programs so that the faith-based organizations aren't excluded, especially given that in some African countries they deliver 40 percent of health services?

I also would like to know how the many pro-life restrictions on U.S. foreign assistance can be followed in an integrated global health program and exactly what activities will be jointly programmed. When, for example, the CDC just established its global health center to oversee its global health programs?

Dr. GOOSBY. Will, I will start the answer to that. Those are two good questions.

I think that we will, of course, follow the law and honor the beliefs of a NGO that is conflicted and moving forward and integrating or connecting to a family practice, family planning service model, referral on consultation, individuals who have parallel capability that are nearby, being sensitive to the fact that an organization may be conflicted around their ability to make a referral. But we are in ongoing dialogue with our faith-based partners to better understand how we can configure this so it is respectful and honors the letter of the law. So we are committed to that.

In terms of the family planning integration piece and how this impacts savings, I want to just make you aware of a project that we are doing in Kenya, the AIDS Population and Health Integration Assistance Project, APHIA. This is an example of taking family planning, maternal and child health, tuberculosis, Malaria, on a PEPFAR platform of care and services. And instead of having five different service implementation efforts going concurrent, putting them together as one program allows us to have one overseer, one manager, one procurement distribution system, one pharmaceutical system that also interfaces with the procurement distribution system, one motor pool system, one monitoring and evaluation system.

We, by doing that, are able to save enough resources to take what would have been one program focused on one province in Kenya and are now able with the same resources to give the same services to eight. That is a perfect example of how this really is a cost-savings exercise through the Global Health Initiative as well as PEPFAR; and as we move through the whole-of-government idea of working better together, that is really kind of a graphic example of what we are talking about.

Ms. GRANGER. Thank you.

I have another question. In the fiscal year 2010 statement of managers accompanying the appropriations act, we included a reporting requirement on global health program effectiveness. That was included at my request. Could you give me an update on the status of that report?

Dr. GOOSBY. We have been working on that report. It was mentioned and referred to in our 5-year plan.

The prevention aspect of that, we have just finished our country operating plan review last Friday and are about to look specifically this Friday at how the prevention efforts within the same countries that we reviewed in the country operating plans have reinvigorated their prevention efforts to refocus on it. This will complete the data collection process that we have gone through. To answer you, within a couple of weeks you should be getting the record.

Ms. GRANGER. Good. And you will come back to us on that?

Dr. GOOSBY. I will.

Ms. GRANGER. I am sorry. I am talking about the overall global report, and you are talking about the prevention report.

Dr. GOOSBY. I am.

Ms. GRANGER. This is the report that was asked for in 2010 at my request, and that is the larger report we are talking about.

Dr. GOOSBY. The larger report for the whole global health portfolio, we are working on. I was talking about the prevention report, and I will have to get back to you on the time frame for that, but we will report to you around those issues as well.

Ms. GRANGER. But you have not ignored it? You are working on it, right?

Dr. GOOSBY. Have absolutely not ignored it, yes.

Ms. LOWEY. The GHI presents a good opportunity to strengthen the U.S. government's commitment to global health goals, and I am very pleased that the implementation strategy indicates that the initiative will have a strong women-centered focus. Can you explain exactly how the women-centered focus will impact programming through the initiative and what other U.S. goals related 20 women's health and specific commitments to improving maternal health?

Ms. STEELE. Thank you. That is a very good question.

We believe that if we are able to address the health needs of the women, we will be able to address the health needs of the entire family. And we are incorporating a number of measures in the way that we design our programs so that there is a whole lot more sensitivity and awareness of what constrains a woman, what incentivizes a woman to go to a health center.

The issue of integration is very important, as you said. By having separate health centers that the women has to go to, it serves as a disincentive. Because they are busy. They can not keep coming back into town in order to be able to meet their health needs. And so we are designing our programs to be very sensitive to the constraints that they are faced.

We are pushing a very strong community-based approach to our health programs so that we can provide the services where the woman is and where her family is. We have set targets and goals

under the Global Health Initiative. They are ambitious but attainable.

From now until 2014, we hope to reduce maternal mortality by 360,000. We have not made global progress before, but we are going to do that now.

In the area of family planning, we have set a target of preventing 54 million unintended pregnancies. We are helping women to reduce the number of births before age 18, and we have set a 20 percent target for that. We are also hoping to increase the number of women who will space their births more, 3 years or more than they currently have been doing.

And, of course, Malaria. We have a very aggressive Malaria program, and women and children are the major target clientele for us in Malaria.

Mrs. LOWEY. Thank you.

The budget request documents indicate that 20 GHI plus countries will be chosen in the coming fiscal year. And some of the criteria lean towards supporting countries with the capacity and resources to immediately leverage new funding, while other criteria seem to point to less developed countries where the health needs are greatest. How will the administration balance the need to show results in countries with capacity versus supporting programs in countries with the highest needs and little capacity?

Dr. GOOSBY. I would be happy to start with that.

It is a critical dilemma that we are trying to work through. We want to pick countries that have high need but at the same time have the ability for us to put in place delivery systems that are responsive to those needs in a time frame that allows us to report back success, impact on the actual issues and concerns that we have targeted.

We also want to learn from the initial countries how to do it in countries that are less prepared than the initial pick. That will be at the end of April that we come back with a discussion back to this committee to actually go over some of the specifics around the country choices.

It is our hope that this becomes a wave that hits the beach and goes all the way up for all government USG activity in all the 80 countries that we are currently involved in and really becomes the new way that we approach development activities in the future.

We are confident that we will be able, with a different relationship with country governments and engaging them from the beginning in discussion around how they can manage, how they can define unmet need, how they can oversee programmatic issues for implementation for these programmatic interventions that we are making for their populations and maintain that ownership, increase that ownership, and amplify that ownership.

The last piece of it will be monetary transfer to country. That will only be when the country is capable of managing, when the country is capable of putting a transparent picture in place, and with our civil society colleagues in partnership, including NGOs and other members of civil society, that constellation of implementers will be defined in dialogue with country, with civil society, with our NGO community to complete and develop continuums of

care and services that remain responsive to the needs of the population they are serving.

Mrs. LOWEY. Following up on that one, will the administration propose funding be provided directly—you touched on it—directly to governments with capacity for a budget mechanism rather than through bilateral agreements? As you know, this committee has strong concerns about the use of budget support. Do you have difficulty tracking and accounting for both impact and results?

Dr. GOOSBY. Well, we are aware of this committee's concerns, and we share the concern. We will not move forward without a robust dialogue with this committee before any type of new relationship is initiated, but we do not foresee that occurring for years into this program. That type of relationship is something that countries will demonstrate their ability to, with full transparency, engage with. So we are not looking to that as being any part of the first wave of activity and would be in dialogue with this committee before we move forward.

Mrs. LOWEY. Did you want to say something?

Ms. STEELE. I wanted to address at the right time your question about achieving a balance with the GHI plus countries and the non-GHI plus countries.

Mrs. LOWEY. Well, following up on that, GHI will be coordinated through USAID, OGAG, and CDC. Indications are that funding will be provided through these three agencies and that programs will be coordinated at both the Washington level and the country level. Unfortunately, this model did not always work as well when it was used as the implementing mechanism for PEPFAR. So maybe you can share with us what lessons have been learned, what would be different about the GHI program, and how will funding be allocated to the three agencies? Are you undertaking a formal review of programmatic expertise within the agency to ensure the most efficient and effective implementation of this new initiative?

Dr. GOOSBY. Yes, I will start the answer to that.

That is exactly what we are doing. We have learned a lot from PEPFAR and from USAID and CDC programming to date in a variety of different programs.

The PMI, as well as maternal and child health, family planning programs, and the PEPFAR information has given us a picture of a cross-agency coordination that has highlighted the need for us to be explicit about defining core competencies of each of the agencies we are working through. Once those core competencies are defined by the agency, they will go to an internal evaluation and have USAID, PEPFAR, and other HHS entities, as well as the Treasury, Department of Defense, and Peace Corps, included in thinking about how that cross coordination actually works through each of their respective agencies to transform them into program.

We have learned that being clear and then enforcing the clarity around core competencies will be a necessary prerequisite to success. I believe we configured a governance process that will allow for an exchange, for the coordination, the vetting of ideas but real clarity in what we expect in moving forward.

Mrs. LOWEY. I want to say one thing. Because I remember our trip to Ghana very clearly, and we had asked the ambassador to bring everyone together, and it was a wonderful meeting. No one

knew anyone else, and they were all operating in their own stovepipes of excellence, as I have learned to call it, and just telling us they were too busy to even know what the other one is doing.

So good luck. This is the challenge.

Before I turn to my colleague, did you want to comment?

Ms. STEELE. No, I totally agree. We have learned a lot of lessons, and the most important is reaching clarity of roles. We really have been working as an interagency both in the field—having heard the story about challenge and knowing from other experiences—and in Washington. We are doing right now, as an interagency, and we have been working together, pulling together plans as a U.S. Government team, country team, as opposed to separate agencies out in the field and here in Washington. Since the President announced the Global Health Initiative, we have been working together with the State Department, CDC, HHS, MCC, as a team, rather than separately.

Mrs. LOWEY. Thank you.

Ms. Granger.

Ms. GRANGER. I want to return to the GHI plus countries and the Strategic Reserve Fund and ask when we can expect the administration to decide which countries will be selected? And also why does the administration believe that no legislative authority is needed for new funds such as this?

Dr. GOOSBY. The country selection is thinking around looking at what countries, looking at need, looking at geography, looking at the capability of each of the countries to engage quickly in this type of work, looking at our USG resources in country that can work to create the integrative activity at the program level are all factors that are going into deciding where we should start.

Those GHI plus countries will be chosen. We will look at a list that we will take to this committee for further vetting to make the final decision, and that should be—by the end of April is when we should have all of that done.

We are hopeful that this will be a blueprint for the broader 80 country USG footprint that is already out there, not to wait until we finish the 20 before we start the 80 but to concentrate our effort on 20 to make sure we maximize our ability to understand the issues around implementation and then bring it to the larger group.

Ms. GRANGER. I know that you didn't address the need for legislative authority to establish the Strategic Reserve Fund.

Dr. GOOSBY. You know, I would have to get back to you on the specifics of that.

I don't know, Gloria, if you have a specific answer for that.

Ms. STEELE. No, I have no specific answer. We will get back to you.

Dr. GOOSBY. I hear you, and we will absolutely get back to you on that.

[The information follows:]

Ms. GRANGER. I know that you didn't address the need for legislative authority to establish the Strategic Reserve Fund.

Ms. STEELE. No additional legislative authority is needed for the Global Health Initiative's (GHI) Strategic Reserve Fund. It will be funded from the overall GHCS request for FY 2011. These funds will be allocated to countries and in amounts to be determined after the budget is appropriated by Congress. The funds are re-

quested within the five legislative health categories and will be used for their allowed purpose. The GHI Strategic Reserve Fund will be used to supplement and accelerate learning by USAID, and efforts to improve primary and specialty care health outcomes—with a focus on women, newborns, and children. It will provide resources for up to 10 GHI Plus countries above and beyond their current, growing baseline allocations. We will continue consultations with Congress on GHI Plus country selection and the allocation of the Strategic Reserve to those countries. The funds will continue to be tracked and reported on by each health category.

Mrs. LOWEY. Well, Ambassador Goosby and Ms. Steele, I want to thank you on behalf of Ms. Granger and myself for your time. I thought this was an excellent hearing.

This concludes today's hearing on the President's fiscal year 2011 request for global health programs. The Subcommittee on State, Foreign Operations, and Related Programs stands adjourned. Thank you very much.

**Questions for the Record Submitted to
Acting Assistant Administrator for Global Health Gloria Steele by
Chairwoman Nita M. Lowey
Subcommittee on Foreign Operations
House Committee on Appropriations
March 23, 2010**

GHI Implementation questions

Question:

- Can you explain how the women-centered focus will impact programming through the Initiative?

Answer:

A core objective of the Global Health Initiative (GHI) is to improve health outcomes among women and girls, both for their own sake and because of the central role women play in the health of their families and communities. Through the woman- and girl-centered approach, GHI will support long-term systemic changes to remove barriers and increase access to quality health services, including, for example, by improving monitoring and evaluation of the health of women, adolescents and young girls; supporting integrated health services; involving men and boys in addressing gender equity; improving training of health providers on gender issues; ensuring meaningful participation of women and girls in decision-making; and engaging civil society in partner countries to address gender equity in health care.

In family planning and reproductive health programs, GHI will ensure programs that focus on meeting the family planning needs of women and adolescents, and will continue to promote informed consent, voluntarism and empowerment as a key component of decision-making. Steps will be taken to increase access to women-controlled methods of contraception, such as the female condom and vaginal ring. At the

same time, programs will seek opportunities to work with men and boys to challenge harmful gender norms, promote men's own health-seeking behaviors, and engage men to support the health of their partners and families.

GHI's woman- and girl-centered approach will specifically work to improve maternal health and reduce mortality, and, consequently, positively affect newborn and child health, given the centrality of women as mothers and caregivers. Programs will seek to involve men to promote safe motherhood, and engage them as supportive fathers so that the burden of care does not fall solely on women. Fistula programs will redouble their efforts to go beyond repair, and reduce stigma and promote women's positive reintegration into the family and community. There will be increased research and implementation on compassionate, dignified care, and a greater focus on understanding and addressing the cultural barriers to obstetric care.

In HIV/AIDS programs, GHI will ensure that the differential needs of women and girls are considered in programs and that there is equitable access to HIV prevention, treatment and care services. Programs will address the cultural and structural factors that increase vulnerability of women and girls to HIV and exacerbate the impact of the epidemic, including work to increase access to income and other productive resources and to strengthen legal rights and protection, and intensified efforts to reduce and respond to gender-based violence. GHI will expand work to address gender norms that perpetuate risk-taking and other harmful behaviors and will engage men and boys to address their own health needs and that of their partners and families.

GHI will integrate effective interventions that address gender-based violence prevention through community mobilization and behavior change strategies, as well as

through sensitization and advocacy at the service delivery and policy levels. New approaches to identify women and girls affected by gender-based violence and address their health and other needs will be supported, including effective strategies to link with other sectors.

The woman- and girl-centered approach of GHI will promote diverse means of service delivery that increase women's access to care. For example, more female health care providers will be trained, and opportunities for their professional advancement will be expanded. Community-based approaches will work to employ women as Community Health Workers, promoting their role as leaders and change agents, and reducing barriers to care. Women's empowerment will be promoted through renewed efforts to develop women leaders who can engage at the civil society and policy levels.

Specific attention will be paid to the health needs of youth. Programs will seek innovative technologies and approaches to increase young women and men's access to health information and services, such as use of cell phones, and phone-in help lines. Special attention will be given to developing effective approaches to delay early marriage, address cross-generational and transactional sex, and other practices that affect girls' and young women's health and well-being.

Question:

- What are the U.S. goals related to women's health specific commitments to improving maternal health?

Answer:

President Obama's GHI addresses the challenges faced by women and their families. GHI will help partner countries improve health outcomes through strengthened

health systems, with a particular focus on improving the health of women, newborns and children. To improve maternal health in the developing world, GHI goal and target are to save approximately 360,000 women's lives by reducing maternal mortality by 30 percent across assisted countries.

Question:

The budget request documents indicate that 20 GHI-plus countries will be chosen in the coming fiscal year. Some of the criteria lean toward supporting countries with the capacity and resources to immediately leverage new funding, while other criteria seem to point to less-developed countries where the health needs are greatest.

- How will the Administration balance the need to show results in countries with capacity versus supporting programs in countries with the highest needs and little capacity?
- Will the Administration propose that funding be provided directly to governments with capacity through a budget support mechanism rather than through bilateral agreements? As you know, this committee has strong concerns about the use of budget support due to the difficulty of tracking and accounting for both impact and results.

Answer:

Designation as a GHI-plus country will focus attention on early results and learning. It does not imply a large percentage increase in U.S. foreign assistance in the selected countries. Therefore the principal concern of the additional funding will be documenting the efficacy of specific U.S. health assistance approaches, particularly as they respond to the seven GHI principles. Country selection will depend on the potential to learn lessons that are applicable to other countries receiving U.S. health assistance. The specific criteria for selection, such as partner country interest in participation, support of national health plans, quality of existing health information systems, breadth of health assistance program, magnitude and severity of health problems, potential to leverage other investments, regional diversity, and focusing on low-income countries all serve to improve the usefulness of the country as a model for assistance in other

countries. Selection does not rely on a need to show large results by working in countries with ready capacity.

The GHI principle of encouraging country ownership and investing in country-led plans will encourage building partner government capacity to manage health programs in addition to assistance directed at other representative organizations of the partner country. Country ownership and government capacity will be supported by using projectized mechanisms like host country contracting or fixed amount reimbursement, in which specific uses of the funds for health purposes will be required.

Question:

The GHI will be coordinated through USAID, OGAC and CDC. Indications are that funding will be provided through these three agencies and that programs will be coordinated at both the Washington-level and at the country level. Unfortunately this model did not always work well when it was used as the implementing mechanism for PEPFAR.

- How will funding be allocated to the three agencies? Are you undertaking a formal review of programmatic expertise within the agencies to ensure the most efficient and effective implementation of this new Initiative?

Answer:

We are learning from the PEPFAR experience, and from the experience of the President's Malaria Initiative (PMI) and other interagency efforts. Appropriations bills allocated funds to USAID and to the State Department (for distribution to implementing agencies). Transfers will be made to Centers for Disease Control and Prevention (CDC) where their expertise would strengthen the Global Health Initiative (GHI). Administrator Shah, Ambassador Goosby, and Tom Friedman are explicitly identifying the different core competencies and strengths and addressing areas where there is unproductive duplication. Discussions among the three agencies serve to help illuminate the strengths of each so that the resulting program is efficient and effective.

Child Survival and Maternal Health**Question:**

At past global health hearings, members of this Subcommittee have consistently expressed disappointment with the lack of attention to child survival, maternal health and family planning programs. I applaud this budget for increasing funds for programs we know to be effective. And, I am pleased that the entire global health program prioritizes women's and children's access to services.

- Evaluation of these programs is key. What effort is underway to establish baseline data for countries where the U.S. government will work? How will progress on expanding services be evaluated?

Answer:

Evaluation is indeed an important tool for assessing and improving the effectiveness of the range of technical and financial support USG provides to achieve the goals of improved maternal and child health (MCH) and family planning outcomes in countries. With the renewed interests in evaluation, learning and accountability for development results expressed by this Administration, as well as the increasing momentum across the global health community to manage for development results, GHI provides an opportunity to improve the rigor of our evaluation work and its strategic relevance and use. Especially in GHI Plus countries, a concerted effort will be devoted to the support of an integrated learning/research agenda that will strengthen links between monitoring, evaluation and research, on the one hand, and program refinement and scale-up, on the other.

Baselines: USG-financed Demographic and Health Surveys (DHS) and Service Provision Assessments (SPAs), UNICEF Multiple Indicators Cluster Surveys, as well as country-based Ministry of Health service and population-based data, will provide both baseline and end-of-GHI data on outcomes and service delivery, using internationally

accepted indicators and measures. Fortunately, not only baselines but trend data already exist for many of the assisted countries from multiple prior DHSs. GHI will develop health systems strengthening and capacity- and leadership-building performance indicators. These indicators and measures are being developed in consultation with the health sector leadership in countries and with international partners, particularly the World Health Organization. Baselines and targets will be established based on in-country assessments of systems, leadership and capacity.

Question:

- How will USAID expand access to programs that reduce maternal mortality? What will be the central interventions in this effort? What will be done to increase access to maternal health services at the community level?

Answer:

USAID's maternal health program will focus on rapid expansion of high impact interventions that address the major direct causes of maternal mortality, while strengthening health systems to sustain increased coverage.

The high impact interventions are the following:

- **Prevention and management of postpartum hemorrhage (PPH):** USAID will focus on introduction and expansion of PPH prevention and treatment in health facilities and for deliveries conducted at home to address the single-most important cause of deaths due to pregnancy and childbirth (30%). USAID will use the WHO-recommended approach to reduce up to 60 percent of uterine atony that causes bleeding: introduction and expansion of active management of the third stage of labor (AMTSL) by skilled birth attendants; and of misoprostol where skilled birth attendants are not available;

- **Management of pre-eclampsia/eclampsia (PE/E):** PE/E is the second highest cause of maternal death (10-15%). Magnesium sulfate reduces the risk of eclampsia by 50 percent and maternal death from this cause by 46 percent. USAID will support community awareness, and early detection and management by trained health workers;
- **Building the capacity of Skilled Birth Attendants (SBA):** Most common maternal complications can be prevented, or appropriately managed, by a skilled birth attendant conducting the delivery at a facility or at home. USAID will support policies, strategies, and programs that promote safe delivery, postpartum care, and focused antenatal care by skilled birth attendants. In addition, USAID will focus attention on compassionate, dignified care of women in childbirth; and
- **Strengthening health systems:** USAID/GH will continue to support systems strengthening, including quality of care; referral systems for emergency care; policies for reduction of financial barriers; enhancement of systems for supply of key obstetric drugs and commodities; and improvement of recruitment, training, deployment and retention of skilled birth attendants.

To address the social determinants of maternal mortality, USAID will link the maternal health program with other relevant programs, such as delay of early marriage and childbearing, family planning, girls' education, women's income generation, civil society involvement, and support of programs that prevent female genital cutting and gender-based violence.

To increase access to maternal health services at the community level, USAID will support community awareness of birth preparedness, recognition and urgent action

for complications, and community mobilization of emergency transport to health facilities that are equipped to provide emergency obstetric care. In addition, USAID will also test the development of community-based, safe motherhood strategies for remote areas which will include life-saving interventions such as misoprostol, oxytocin in Uniject for prevention of postpartum hemorrhage, calcium and pre-referral loading dose of magnesium sulfate for prevention and management of pre-eclampsia and eclampsia, and birth kits for clean delivery. USAID will also test linkages of community health workers and facility-based skilled birth attendants via cell phone for first-response advice and initiation of referral.

Question:

What efforts will be done to decrease neonatal mortality?

Answer:

USAID supports an integrated approach to delivering maternal and newborn health interventions since newborn health outcomes are integral to maternal health. Our support strengthens community-based approaches, quality improvement in health facilities, and policy advocacy. USAID's newborn health program will increase coverage of home-based and peripheral-facility interventions that address the major causes of newborn mortality. The evidence based high-impact interventions include the following:

- **Essential newborn care:** Home-based interventions can reduce up to 60 percent of newborn mortality in high mortality settings. USAID will support the implementation of the recent Joint UN statement which recommends early postnatal visits for universal coverage of essential newborn care practices (e.g., early initiation and exclusive breastfeeding, skin-to-skin contact, attention to hygiene such as

handwashing with soap and water, and clean umbilical cord care). USAID has initiated a Global Development Alliance with Unilever to accelerate the expansion of handwashing for newborn survival;

- **Infection management:** USAID will strengthen the capacity and quality of services in peripheral health facilities to manage newborn infections. In addition, USAID will continue to support the introduction of chlorhexidine, an antiseptic applied on the umbilical stump by family members and community health workers to prevent infection. USAID will also continue to support, jointly with the Gates Foundation, a WHO-managed multi-country study to determine the efficacy and effectiveness of a simplified antibiotic regimen while concurrently supporting programs interested in introducing feasible community-level treatment approaches;
- **Neonatal resuscitation:** USAID has initiated a Global Development Alliance with several partners including Laerdal, a manufacturer of high quality and low-cost resuscitation devices, to accelerate the scale up of newborn resuscitation in several priority countries; and
- **Pre-term births/low birth weight:** USAID will support kangaroo mother care in health facilities and in the home to manage preterm, low-birth-weight infants. USAID's support to prevent low birth weight includes linkages with other health programs that are delivered through focused antenatal care, i.e., reducing the spread of infectious diseases like malaria, syphilis, and HIV/AIDS, reducing malnutrition and anemia, and family planning programs to promote birth spacing.

HIV/AIDS Treatment**Question:**

The United States has led efforts to address the global HIV/AIDS pandemic. Currently, U.S. funding accounts for the lion's share of global donor funding for HIV/AIDS programs in the developing world. Some are concerned that the fiscal year 2011 budget steps away from the United States' commitment to expanding access to treatment.

- Please outline what funding is included in the fiscal year 2011 budget to support increased access to treatment and how many people, including additional patients, will receive treatment in the upcoming fiscal year?
- What is PEPFAR doing to reduce the cost of second line drugs?

Answer:

The United States has led the way in addressing HIV/AIDS, but it is not the sole partner in the response to the epidemic. The HIV/AIDS epidemic is a shared global responsibility that requires a shared global response. While the United States remains the leading contributor to these efforts, it works at the country level with partner country governments, the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund), other donors, and non-governmental organizations to address the need in each country level. The United States remains committed to expanding access to treatment, as well as maintaining support for those already on treatment. In the next phase of PEPFAR, we are working to better coordinate each country response in a way that recognizes and encourages the contributions of each partner, maintains quality, and builds sustainability in country programs.

Consistent with past practice, the Administration's FY 2011 budget request for PEPFAR does not include a breakout of funding for activities by program area, such as treatment or a projection of the number of persons who will receive treatment associated with FY 2011 funding. Historically, these steps have been taken in collaboration with the field, based in part on data provided through the Country Operational Plan (COP)

process, which takes place during the fiscal year. (For example, the COP process for FY 2010 is now approaching a close.) However, PEPFAR's Five-Year Strategy, released in December 2009, outlines our overarching goals for the next phase of the program, including continued scale-up of treatment.

The costs of providing antiretroviral treatment vary widely from country to country. To address overall drug costs, including those of second-line drugs, PEPFAR is working with country governments, multilateral organizations, regional actors, and private foundations and companies, among others, to address legal and regulatory barriers to the availability of high quality, inexpensive HIV-related commodities from local or international sources. Two generic versions of second-line therapies were recently tentatively approved by the FDA process that PEPFAR funds, and this is resulting in market shifts that are helping to drive down second-line costs for our programs. PEPFAR is also working to assist countries to aggressively prevent, identify and treat opportunistic infections prior to the start of antiretroviral (ARV) treatment. With these activities, PLWHA remain healthier longer, thus delaying the need for treatment. Once PEPFAR initiates treatment, programs work to detect acquired drug resistance, maximize drug regimen adherence, and retain patients in care. Effective measures for doing so include use of pharmacy records and targeted monitoring, with a focus on gaining the greatest utility from first-line medications.

In October, the 100th generic ARV was approved under FDA's fast track review of generic formulations. This list now includes newer, less toxic drugs and the most commonly used second-line agents, resulting in significant price reductions in these

formulations over the last year. It is estimated that FDA's actions currently save PEPFAR approximately \$150 million each year on ARV costs.

Question:

We have heard from Ugandan physicians that due to the lack of new funding they are not able to offer treatment to new patients who were previously under their care. Patients are sharing drugs with their family members, skipping doses, and engaging in risky behaviors as the lose hope.

- What will the U.S. do to address this problem, which can build up drug resistance?
- How are we engaging with our global donor partners to fill these funding gaps?
- Has the world signed onto a treatment goal that is unrealistic and unsustainable?

Answer:

America remains committed to supporting Uganda's response to HIV/AIDS. In fact, the U.S. Government (USG) contributes approximately 70 percent of all funding for HIV/AIDS activities in Uganda. With this \$285 million investment in FY 2009, PEPFAR directly supported life-saving antiretroviral treatment for approximately 175,400 men, women and children in Uganda as of September 30, 2009, in addition to those it supports on prevention and care. PEPFAR will not only continue long-term support for the patients we currently serve, but will continue to scale up and expand access to antiretroviral treatment in Uganda and other countries. We are working closely with our country partners to determine the best ways to ensure continued scale-up and maximize access to treatment in each country we support.

Given the scope of the epidemic in Uganda, the fight against AIDS is one that must be undertaken as a shared responsibility among multiple partners, including the USG, the country government, multilateral organizations, other donors and nongovernmental organizations. However, in Uganda and many countries, demand for antiretroviral treatment, prevention and care outpaces the total resources currently being

provided by all funding sources. Thus, we are supporting partner governments in identifying and prioritizing unmet need, and converging diverse funding streams to meet it. Along with government funds, resources from both the USG and other external donors (through mechanisms such as the Global Fund) are part of this solution.

In terms of the experience of particular partner organizations, there is a distinction between a PEPFAR country program and its targets and the individual partners who implement time- and contract-bound projects to help us meet those overall targets. Thus, there is no expectation that a particular partner will always provide PEPFAR-funded treatment to a certain number of patients, only that the USG will. Agreements with partners do not last forever, and generally after five years, projects are re-competed. The USG team uses this competition process as a way to rationalize service delivery, especially geographically, and get from applicants fresh ideas and approaches that allow for continuous improvement in overall service delivery. These re-competes are planned so as to ensure that patients have continuity of services; the United States takes seriously its moral obligation to continue providing treatment for all those it has placed on treatment since the beginning of the program.

The Global Fund is a key mechanism for meeting HIV needs in resource-constrained countries. At the country level, the USG supports the Global Fund through planning support and technical assistance to facilitate grant implementation. The need for technical assistance is urgent in Uganda, as demonstrated by the fact that slightly over \$4 million of an approved Round 7 grant of approximately \$70 million has been disbursed. In addition, the USG is working at the leadership level with the Board of Directors and Secretariat to strengthen the Global Fund's ability to prioritize needs and put money to

work rapidly. In Uganda and globally, the Global Fund's success is our success, so we must ensure that the country is able to put its grants to work.

Seven years after the creation of PEPFAR, AIDS is still a continued threat around the world. According to the World Health Organization, AIDS is the leading cause of death worldwide for women in their reproductive years – and these women who die often leave behind children who are then themselves at higher risk for adverse health outcomes. Investments in PEPFAR, and the global AIDS fight overall, continue to be necessary, whether or not treatment goals appear difficult to attain. However, PEPFAR is working with its partners – other governments, donors, multilateral organizations and nongovernmental organizations – to coalesce the shared efforts needed to achieve global treatment goals in a sustainable manner.

Pandemic preparedness**Question:**

This Subcommittee has invested significant resources to monitor, track and prevent avian influenza, H1N1 influenza and other diseases that are transmitted from animals to humans. For the first time in many years, the budget request reduces funding for this program from \$156 million to \$75 million.

- Is this reduction due to a reduced threat from these diseases?
- What is the current state of H1N1 and do we believe that it will re-emerge in the coming months?
- Much of this funding was used to strengthen surveillance systems in key countries. How will this health infrastructure be used to benefit our goals under the Global Health Initiative?

Answer:

The threat posed by diseases that are passed from animals to humans continues to exist at the same level. H1N1 continues to be present worldwide. The virus has not mutated into a more deadly form and mortality rates remain relatively low. WHO convened a panel of experts to determine the course of action that nations should take in response to the virus. Since the southern hemisphere is just entering its influenza season, we need to remain on alert for any changes that may occur. The threat of a return of the virus in a more deadly form in the fall is low, but we cannot afford to let our guard down.

The surveillance and laboratory capacity that was developed during the response to the influenza pandemic, and is being further strengthened in the Emergent Pandemic Threats program, is capacity that can be used for the detection of and response to many infectious diseases. The Global Health Initiative (GHI) includes mortality and morbidity reduction targets in HIV/AIDS, TB, malaria, Neglected Tropical Diseases, as well as maternal and child health and nutrition. Each one of these areas requires strong surveillance and laboratory systems to achieve its target. Building indigenous

surveillance and laboratory capacity is critical to enable countries to respond to the health development goals of the GHI. The improvements in national surveillance and laboratory capacity achieved under the influenza program also supports GHI principles, such as health system strengthening, improved metrics, monitoring and evaluation, and strengthening global health partnerships like the International Health Regulations. The investments made in surveillance and laboratory capacity were designed to generate collateral benefits to the initial investment and, thereby, establish a foundation upon which countries can construct numerous public health programs. That approach is continuing under the Emergent Pandemic Threats program.

Neglected Tropical Diseases**Question:**

The fiscal year 2011 budget more than doubles funding for neglected tropical diseases (NTDs), from \$65 million to \$155 million. Clearly, this Administration believes that NTDs are a priority.

- Why does this budget place so much importance on addressing these diseases?

Answer:

More than one billion people, mostly in the developing world, suffer from one or more neglected tropical diseases (NTDs). These diseases disproportionately impact poor and rural populations who lack access to safe water, sanitation, essential medicines and protection from disease vectors. The primary negative impact of NTDs in the developing world is on health and on economic development. NTDs cause sickness and disability, contribute to childhood malnutrition, compromise children's mental and physical development, and can result in blindness, severe disfigurement and appreciable loss of productivity.

Fortunately, seven of the most prevalent NTDs can be controlled using preventive chemotherapy that has been proven safe and effective and that can be delivered in an integrated manner through mass drug administration. These diseases include schistosomiasis, onchocerciasis, lymphatic filariasis, trachoma and 3 soil-transmitted helminthes. Relatively small USG investments leverage considerable drug donations and enable millions of people to access treatment. With the USG investment of \$15 million in FY 2008, the pharmaceutical partners donated well over \$500 million worth of drugs in countries supported by USAID. This public-private partnership has enabled over 220 million treatments to be delivered over the past three years.

Question:

- Are other donors increasing their commitment?

Answer:

In 2006, the U.S. Congress expressed its support for NTD control with a \$15 million earmark. This major step raised the profile of NTD control on the U.S. global health agenda and stimulated other high-level global commitments to NTDs, including a 2008 G8 commitment. The declaration by G8 countries stated “... *including through the mass administration of drugs, we will be able to reach at least 75% of the people affected by certain major neglected tropical diseases in the most affected countries in Africa, Asia, and Latin America, bearing in mind the WHO Plan. With sustained action for 3-5 years, this would enable a very significant reduction of the current burden with the elimination of some of these diseases.*” Other commitments include:

- United Kingdom (Dfid): The UK responded to the G8 declaration by committing 50 million pounds over 5 years to NTD control. These investments are closely coordinated with USAID’s investments at the country level;
- World Bank Trust Fund; African Programme for Onchocerciasis (APOC): Donors, including Saudi Arabia, Belgium, Luxembourg, the UK, Netherlands, Canada and the African Development Bank, contribute to a trust fund managed by the World Bank in support of onchocerciasis control in Africa. The pledges during 2010-2015 total about \$70 million, with USAID contributing \$3 million to this fund in FY 2009;
- Bill & Melinda Gates Foundation: The Gates Foundation has invested over \$566 million in NTD control since 1998. In FY 2010, they estimate that they will

allocate approximately \$90 million on strategy optimization, as well as new tool development including diagnostics, new drug development, modified drug strategies, and vaccines (hookworm only). The targeted diseases include the seven MDA diseases addressed by USAID, as well as Guinea worm, African Trypanosomiasis and visceral leishmaniasis;

- Pharmaceutical partners: Several drug donation programs have recently been extended or expanded in response to increased USG investments in implementation; donated drugs were valued at over \$590 million in countries supported by USAID during 2009, as described in the table below.

NTD	Drug	Donation leveraged
Onchocerciasis	Ivermectin	Open-ended donation commitment from Merck & Co., Inc., since 1987; committed to oncho elimination
Lymphatic filariasis	Albendazole	GlaxoSmithKline donation for global elimination of LF since 1998
	Ivermectin	Merck & Co., Inc. open-ended commitment for African countries with onchocerciasis co-endemicity
Schistosomiasis	Praziquantal	Merck KGaA donation of 200 million tablets of PZQ for treatment of Schistosomiasis through 2017.
Soil-transmitted helminthes	Mebendazole	Johnson & Johnson commitment of up to 50M doses / year.
Trachoma	Azithromycin	Pfizer Inc. committed to donating for elimination of trachoma

Question:

- What are the goals for this funding and what can be achieved with it in the upcoming fiscal year?

Answer:

The goals for this program are to: Reduce the prevalence of seven NTDs by 50 percent among 70 percent of the affected population, contributing to 1) the elimination of

onchocerciasis in Latin America by 2016; 2) the elimination of lymphatic filariasis globally; and 3) the elimination of leprosy.

With FY 2011 resources, the USG will launch integrated NTD control activities in 8 new countries, and continue scaling-up or supporting nationally-scaled integrated NTD control programs in 22 additional countries, reaching a total of 30 countries that account for up to 80 percent of the global burden of these diseases. In FY 2011, over 217 million treatments would be delivered. The elimination of onchocerciasis will be confirmed in at least one new country in Latin America, and the elimination of lymphatic filariasis confirmed in at least 15 countries.

Question:

- Is this a downpayment on what is expected to be a much bigger increase for these diseases in the coming years?

Answer:

The FY 2011 budget request reflects the increase needed to launch and support programs in all 30 target countries that account for up to 80 percent of the global burden of the NTDs, which will be required to meet the GHI targets within 6 years. Some scale-up may be needed in future years to reach national scale in all countries but the FY 2011 request is the pivotal year. To significantly reduce the prevalence of most of these diseases to a level where mass drug administration is no longer required, yearly treatment that reaches 80 percent of the at-risk population must be sustained for 3-5 years.

Question:

- Will there be an opportunity for the targeted NTDs to be expanded in this year or subsequent years of the Global Health Initiative (GHI)? Will research and development of NTDs be a vital component of the initiative as is desperately needed?

Answer:

The GHI is focused on seven NTDs that are considered “tool ready” by WHO, meaning there are safe and effective treatments that can be delivered to entire communities without require complex diagnosis of individual cases. This group of NTDs accounts for the vast majority (estimated at 70-80 percent) of the global burden of NTDs. However, there are several other NTDs that cause considerable morbidity and even mortality in developing countries. These NTDs -- such as fatal visceral leishmaniasis, sleeping sickness, dengue, Chagas disease, and the disfiguring Buruli ulcer -- are not amenable to preventive chemotherapy either because a safe treatment is not available or complex diagnostics are required prior to treatment or because treatment demands elevated healthcare expertise which usually impedes implementation of control activities by national health services. Certainly, the USG would like to address these other NTDs that are of concern in developing countries.

The FY 2011 funding request includes support (i.e., up to 5 percent of the budget) for late stage product development, including new drugs and diagnostics, and operational research which may support a more robust and effective response to NTD control in the near-term. Such research might enable the field evaluations of new tools that would broaden the list of “tool ready” diseases in the near term.

As safe and effective new drugs and tools become available for these other neglected diseases, USAID will consider adding these diseases to its program. USAID is coordinating this research with the National Institutes of Health (NIH), which is the lead agency within the USG on basic research on pathogen biology and new treatments, particularly for those NTDs that do not currently have safe and effective intervention strategies.

Malaria**Question:**

The President's request includes an increase of nearly \$100 million for the President's Malaria Initiative. This program has consistently demonstrated impact and malaria is no longer the primary cause of death for millions of children in the developing world due to our efforts.

- Unfortunately, the budget document provides very little direction on how these additional resources will be used and \$88 million is set aside as unallocated in a regional account. Can you outline where these additional resources will be used?
- Extensive attention has been focused on scaling up interventions in the Democratic Republic of the Congo, Nigeria, and Ethiopia, all countries with multiple on-going grants from the Global Fund to address malaria. Why does the United States have to increase its bilateral funding in these countries if they are already flush with funding from the Global Fund?
- What is the United States doing to leverage program funding from the Global Fund in the malaria area and why are we duplicating efforts? What is the U.S. doing to provide technical assistance to support implementation of the Global Fund grants?

Answer:

During the past three years, six PMI countries -- Ghana, Kenya, Rwanda, Senegal, Tanzania and Zambia -- have reported results of nationwide household surveys that show substantial reductions in all-cause mortality in children under five years of age have been documented, ranging from 19 to 36 percent when compared to earlier nationwide household surveys. There is strong and growing evidence that malaria prevention and treatment efforts are a major factor in these reductions. This reflects the cumulative effect of malaria funding by PMI, USG support prior to PMI, national governments, and other donors and demonstrates the remarkable progress made in malaria control in the past few years. However, there is still much work to be done as malaria remains a major cause of morbidity and mortality across much of Africa. In the original 15 PMI countries, it is vital that we sustain the gains we have made, and continue to improve coverage of malaria control interventions and reduce malaria-related mortality. In most PMI countries

there is still a need to scale-up long-lasting insecticide treated nets (LLIN) ownership, increase LLIN use, build capacity in indoor residual spraying (IRS), improve the quality and availability of diagnostics and treatment for malaria, and expand our efforts in surveillance and monitoring and evaluation (M&E). Also, to have a wider impact on malaria in Africa, it is imperative that we expand our efforts to other endemic countries. Thus, the additional the \$88 million currently requested for the Africa Bureau will be allocated to support the expansion of malaria control and prevention efforts in the two highest burden countries in Africa, Nigeria and Democratic Republic of Congo (DRC), that account for much of the remaining malaria burden in Africa, as well as allow for the PMI to support the scale-up of malaria control interventions nationwide in Ethiopia.

As mentioned, DRC, Nigeria and Ethiopia have multiple Global Fund grants; however, these grants do not provide enough funding to meet all of the needs to control malaria in those countries. PMI resources will complement existing Global Fund grants by building capacity in malaria control at all levels, supporting the distribution of commodities procured by the Global Fund or other donors, providing vital technical assistance such that the grants can be implemented successfully, strengthening health systems, and filling existing commodity gaps.

For example, although Nigeria has a large Global Fund grant that provides funds for the procurement and distribution through universal coverage campaigns of more than 63 million LLINs nationally, there is insufficient funding for many of the operational costs and technical assistance needs associated with these campaigns, nor is there funding for any future LLIN distributions to maintain high coverage. Therefore, PMI will help ensure the successful implementation of the Global Fund grants by providing

support for operational costs and providing technical assistance in logistics. In FY 2011, PMI will provide support for the development of a routine system for LLIN distribution, which will ensure that there is a regular supply of LLINs in country. PMI in Nigeria will also address issues not covered through the Global Fund such as improving diagnostics and providing training and supervision of health workers.

Overall, the USG provides vital technical assistance to support the implementation of Global Fund grants in a number of ways. At the county level, PMI supports systems strengthening for areas that are frequent bottlenecks in Global Fund grant implementation. PMI specifically addresses those issues that frequently delay Global Fund grant signings and disbursements including poor financial management systems, weak monitoring and evaluation plans, and dysfunctional procurement and supply management systems. In addition, PMI also supports the Roll Back Malaria Partnership's Sub-regional Network, which has the mandate to address bottlenecks to Global Fund grant implementation. Much of this assistance has focused on particularly resolving obstacles to the signing of Global Fund grants.

Tuberculosis

Question:

More than 2 billion people – nearly one-third of the world’s population – are infected with the tuberculosis bacteria and one in ten of these individuals will become sick with active TB. Yet, every year, the President’s budget underfunds TB programs. This year is no exception, with program receiving a minimal \$5 million increase.

- Understanding the role that TB plays in the progression of HIV/AIDS and the fact that it kills many HIV/AIDS patients, why has the Administration not prioritized TB programs in this budget request?
- Is the Administration working with other donors to ensure that they are providing funding to expand these programs?
- What more can be done to ensure the effectiveness of Global Fund TB programs?

Answer :

We share your concern about the global burden of tuberculosis and place a high priority on controlling this disease. Through effective programs implemented by USAID and coordination with OGAC, the Global Fund, and other donors, important progress is being made. With the funding increase provided by Congress in FY 2008-2010, our programs are already ramping up, including in countries with a high burden of multi-drug (MDR) TB, such as Bangladesh, Democratic Republic of Congo, Ethiopia, India, Indonesia, Pakistan, The Philippines, Russia and South Africa. USAID programs improve the quality of basic TB services to prevent the development of drug resistance and support expansion of diagnosis and treatment of MDR TB. At the same time, AIDS funding for HIV/TB increased to \$132 million in FY 2009. In USAID priority countries where there are also AIDS programs, AIDS and TB funds are used synergistically, with USAID funds invested to expand TB services, and AIDS funds used for interventions such as HIV testing of TB patients and TB screening in HIV treatment and care services.

Other important donors for country level TB programs are the Global Fund and UNITAID. Ensuring the success of Global Fund grants is a priority of our programs; we

assist the Global Fund in several ways. USAID provides technical assistance (TA) to help countries prepare proposals to the Global Fund. A total of \$2.9 billion has been approved for TB by the Global Fund for rounds 1 – 9 combined, and the most recent approval of \$666 million from round nine made it the most successful round for TB grants ever. Once grants are approved by the Global Fund, USAID provides significant TA to help ensure the success of the grants, including for preparation of pre-grant signing requirements (workplans and plans for procurement, monitoring and evaluation), mid-grant assessments (to prepare for phase 2), and for various TB technical issues. A mechanism known as the TB TEAM supported by USAID ensures that technical assistance is effectively coordinated and that TA needs are identified and addressed promptly. USAID also provides funding to the Green Light Committee (GLC) to assist Global Fund grants to implement MDR TB services that comply with international standards; Global Fund recipients that meet GLC technical criteria are eligible to procure quality-assured second line TB drugs at competitive prices through a pooled procurement mechanism thereby improving the efficiency of the grants. These mechanisms, as well as USAID technical partners on the ground in priority countries, play a key role in the success of Global Fund grants.

UNITAID is another important multi-lateral donor that provides financing for second-line TB drugs, pediatric TB drugs, and commodities for improving laboratory capacity to diagnose MDR TB. USAID resources support technical assistance to ensure that these commodities are used optimally. Examples include helping laboratories meet accreditation standards, improving commodity management systems, capacity building, and TA to aid countries to expand MDR TB services.

Health and Humanitarian Crisis**Question:**

- Given that the 10 GHI Plus countries are likely to be among the world's poorest, and that the majority of humanitarian interventions tend to occur in low-resource countries, will GHI also contain resources to deal with health issues that arise in these countries as a result of natural disasters or civil unrest?

Answer:

The Global Health Initiative (GHI) will improve the capacity of about 80 countries, including the GHI Plus countries, to deal with their health problems. The GHI's emphasis on the health-related needs of women, newborns and children, who are typically the most vulnerable when emergencies strike, and its investments in sustainable health delivery systems will mitigate the magnitude of health needs and enhance the partner country response following disaster or civil strife. However, when a sudden crisis brings new humanitarian needs, other USG funding sources will be available to supplement health GHI programs, such as those implemented by USAID's Office of Foreign Disaster Assistance, Office of Civilian Response, and Office of Transition Initiatives.

Microbicides for HIV Prevention**Question:**

As you know, women and girls are at the epicenter of the HIV/AIDS epidemic worldwide. Biology and culture combine to put women at greater risk of contracting HIV than men, especially in developing countries. According to the World Health Organization, AIDS remains the single largest killer of women of reproductive age in the world. The global community urgently needs new HIV prevention tools, especially those that empower women to protect their own health and well-being.

- How can USAID best ensure that there is a coordinated and focused approach to supporting product development of “next generation” ARV based microbicides as a key component of a gender-sensitive approach to HIV prevention?

Answer:

The primary objective of the USAID microbicide research and development (R&D) program is to develop a product that will help fill the enormous need for a woman-controlled HIV prevention method. To this end, USAID is committed to the development of a safe, effective and acceptable microbicide for the prevention of HIV and other sexually transmitted diseases. An estimated 33 million people worldwide are infected with HIV, and in sub-Saharan Africa almost 60 percent of those infected are women. The USAID ARV-based microbicide R&D program will continue to respond to the inequitable gender-based transmission of HIV and to the needs of women and girls.

To ensure a coordinated and focused approach to advancing ARV-based microbicide R&D, USAID collaborates extensively with other U.S. Government (USG) agencies, including the National Institutes of Health (NIH), Centers for Disease Control and Prevention (CDC), and the Food and Drug Administration (FDA). This collaborative approach has been productive and successful in coordinating protocols for preclinical testing, prioritizing promising candidates, designing clinical trials, building local research capacity, and preparing communities for clinical studies, as well as learning about each

other's progress, the state-of-the-art, and best practices, including standards of care. For next generation ARV-based microbicides, this coordination continues to foster the strategic implementation of all research, ensure the best use of federal resources, and prevent unnecessary duplication of effort.

More broadly, USAID also partners with other organizations and donors to coordinate microbicide R&D efforts and maximize the speed and efficiency of the Agency's program. For example, USAID and a variety of other stakeholders have collaborated in an effort led by the Alliance for Microbicide Development to complete *The Microbicide Development Strategy*. This is a very extensive and comprehensive framework for the future activities of all stakeholders in the microbicide field, including investigators, donors and the developing country communities where new HIV prevention technologies are needed.

Additionally, USAID and the implementing partners its supports are active participants in scientific meetings attended by representatives from across the microbicide development field, including USG agencies, universities, large foundations and private organizations. These meetings provide a valuable forum for critical examination and interaction between stakeholders on technical issues, programmatic priorities and strategic coordination. The technical leadership of USAID and its partners continues to be substantial in advancing the microbicide R&D field.

Question:

- What do you think are the priority actions that that USAID should be taking to accelerate development and availability of ARV-based microbicides for HIV prevention?

Answer:

The USAID Microbicide Program continues to be in the forefront of research on ARV-based microbicides and has been identifying relevant opportunities and implementing appropriate program changes to accelerate their development and availability for several years.

The highest priority actions for USAID's microbicide efforts are now the completion of the ongoing international and multi-year Phase IIb and III clinical trials to evaluate the safety and effectiveness of Tenofovir 1% Vaginal Gel (in the CAPRISA 004 trial) and Oral Truvada (a combination of Tenofovir and emtricitabine in the FemPrEP trial) for the prevention of HIV infection in women.

With USAID support, in May 2007 CAPRISA 004 became the first clinical trial launched to test the effectiveness of an ARV-based microbicide. This trial has evaluated the protective effect of a Tenofovir 1% vaginal gel in 980 volunteer participants at two sites in South Africa. When the results are made public in July 2010, CAPRISA 004 will be the first trial to provide data on the effectiveness of an ARV-based topical microbicide.

Also with USAID support, the FemPrEP clinical trial began enrolling volunteer participants in July 2008 and is expected to include 3900 women at six sites in Kenya, Tanzania, South Africa and Malawi when it is completed in 2012. This formulation and route of administration are being tested as an alternative to the topical, vaginal, and

coitally associated microbicide formulations that have been tested while serving the identical purpose – allowing women an option for protecting themselves against HIV infection.

While completion of these ongoing clinical trials is the highest USAID priority for microbicide programming, the Agency's strategic plan for microbicide R&D continues to advance other specific ARV-based approaches, such as those employing the NNRTIs UC781, MIV 150, and Dapivirine, which are now entering or approaching the initial stages of clinical testing as microbicides.

Priority actions for USAID also include additional research on: novel delivery methods (such as vaginal rings, tablets or films); combination products including multiple-mechanism and multiple-purpose agents (to prevent pregnancy or other STIs as well as HIV); understanding and preventing the risk of viral resistance; novel non-ARV leads; optimized clinical trial design and trial site coordination; and ensuring post-trial availability of microbicides as soon as they are shown to be safe and effective.

More extensive information regarding these priority actions for USAID, both to advance the development of next-generation microbicides and to ensure access to those microbicides in the future, is available in the 2009 Report to Congress titled "*The USAID strategic plan for microbicide research and development: Current initiatives and next-generation leads*" and available at http://pdf.usaid.gov/pdf_docs/PDACN500.pdf.

Question:

- How can you best use OGAC's office and leadership to ensure that the key US government agencies involved in microbicides research, especially USAID and NIH, have a coordinated approach to supporting product development of "next generation" ARV based microbicides as a key component of their gender-sensitive approaches to HIV prevention?

Answer:

USAID will continue to look to OGAC's leadership in ensuring a focused and coordinated approach to microbicide R&D and eventual introduction into HIV endemic regions. These collaborative efforts have ensured that USAID, NIH and other agencies strategically develop and implement all preclinical and clinical activities around microbicide R&D. The effective coordination of effort among the USG agencies is strengthened not only by extensive consultation, but by the representation and active contributions of each agency in the technical and programmatic planning and reviews of the other agencies. Ongoing and extensive collaborations will ensure the best use of federal resources and prevent unnecessary duplication of effort.

USAID will continue to work closely with OGAC and other USG agencies to shape the strategic and technical direction of microbicide R&D to meet developing country needs. OGAC will also serve a primary role in introducing and implementing microbicide programs as part of the USG's HIV programming, once microbicides are available.

**Questions for the Record Submitted to
Dr. Eric Goosby by
Representative Barbara Lee (#1 - #12)
Subcommittee on State, Foreign Operations, and Related Programs
House Committee on Appropriations
March 23, 2010**

Question #1:

As you know, the President's Global Health Initiative (GHI) promotes stronger partnerships with key multilateral organizations such as the Global Fund and the Global Alliance for Vaccines and Immunization.

Congress has consistently supported a robust U.S. contribution to the Global Fund, due in part to the Global Fund's focus on country ownership, the additional funding leveraged from other donors as well as the important partnership it has with U.S. government programs.

As you know, the Global Fund is in a replenishment cycle this year where international donors will make three year funding commitments for 2011 to 2013. While the U.S. did not make a formal commitment during the last replenishment, it did make a multi-year commitment during the first replenishment process.

As you are also aware, many countries look to the U.S.'s contribution as they contemplate their own, since the U.S. is the largest single country donor and for the 2011-2013 replenishment cycle, the first country to provide a pledge for 2011. This makes the U.S. participation in the replenishment a key factor in the Global Fund's plans for increased funding for 2011 to 2013.

- Do you anticipate that the US will make a specific multiyear funding commitment to the Global Fund in this replenishment round, with the appropriate caveats regarding the annual appropriations process?

Answer:

We do not anticipate a multi-year funding commitment in the upcoming replenishment round. The U.S. government has supported the Global Fund's replenishment process, especially because other donors consider it to be a useful tool for resource mobilization within their own governments. However, this multi-year pledging process does not align with the U.S. government's budget process and annual appropriations cycle. Key donors understand this and are not expecting the U.S. government to announce a multi-year pledge.

Question #2:

The Administration's budget request for FY2011 is \$1 billion for the Global Fund as part of the new Global Health Initiative (GHI). The GHI includes several important principles, many of which are in clear agreement with the Global Fund's framework, particularly, country ownership and partnerships. The goals the GHI lays out are quite ambitious and it seems to me that in order to reach these objectives, we must partner with key organizations like the Global Fund—especially when they leverage funding from other donors.

- Considering all of this as well as the growing global resource needs we continue to see, how does the Administration view the role of the Global Fund within the GHI?

Answer:

The Administration continues to see our contributions to and broader support for the Global Fund as an integral part of our response to HIV/AIDS, tuberculosis, and malaria and consistent with the GHI principles of increased integration, partnership, and support for country ownership. In keeping with these

principles of integration and partnership, the Administration is placing increased emphasis on ensuring our bilateral efforts are coordinated with Global Fund-financed programs and dedicating field resources to providing on-the-ground support for implementation and oversight of these programs. As a financing mechanism rather than an implementing organization, the Global Fund depends on partners such as the U.S. government to provide such support. Our continued financial support for both bilateral and multilateral programming is mutually reinforcing and essential to the long-term success of the GHI.

Question #3:

As you know the request for FY2011 is \$1 billion for the Global Fund. As the Fund has matured, so has its ability to fund high quality proposals from recipient countries.

- Given the anticipated growth in demand, based on previous rounds, what level of multi-year commitment from the U.S. do you feel is appropriate?

Answer:

As noted above, the Administration does not anticipate making a multi-year commitment at this time. The Administration has requested \$1 billion for contribution to the Global Fund in FY 2011, and we believe this amount will allow the Global Fund to maintain ongoing grant commitments and finance new proposals through Round 10. We will continue to work closely with the Global Fund to better understand their projected needs as we develop our FY 2012 and FY 2013 requests. As always, these requests will take into account the Global Fund's partnership model, which relies on bilateral donors to provide on-the-ground support for grant implementation and oversight as well as direct financial contributions. The U.S. government is one of the few bilateral donors with the in-country assets, financial resources, and political courage to provide this essential country-level support, and we will continue to provide it along with robust financial support.

Question #4:

As articulated in the new PEPFAR five year strategy, the US will support HIV treatment for over 4 million people by the end of fiscal year 2013. What will be the overall budget for treatment in 2011 and approximately how many new patients will this allow PEPFAR to add?

Answer:

Consistent with past practice, the Administration's FY 2011 budget request for PEPFAR does not include a breakout of funding for activities by program area, such as treatment, or a projection of the number of persons who will receive

treatment associated with FY 2011 funding. Historically, these steps have been taken in collaboration with the field, based in part on data provided through the Country Operational Plan (COP) process, which takes place during the fiscal year. (For example, the COP process for FY 2010 recently ended.)

Millions of people with CD4 cell counts under $200/\text{mm}^3$ are not currently reached by treatment. Within the context of national priorities, PEPFAR is making it a priority to reach the sickest individuals first, as well as pregnant women HIV/TB co-infected populations, in order to prevent as many immediate deaths as possible. In countries with high coverage rates that are expanding eligibility, PEPFAR is helping to provide technical assistance and support for the overall treatment infrastructure. Given that many individuals are only tested once they become symptomatic, PEPFAR is also expanding country efforts to better link testing and counseling with treatment and care.

In terms of considerations that will guide planning of treatment scale-up during FY 2011, a key consideration is the cost of providing antiretroviral treatment. We have found that this varies widely from country to country. PEPFAR's share of costs varies substantially and is dependent on existing agreements with national governments and other sources of funding available in the country. We are working on a country-by-country basis to help each country program identify possible efficiencies so that each dollar will go farther.

PEPFAR will also continue to work with countries to reach a threshold of 85 percent ARV prophylaxis or treatment of those pregnant women found to be HIV-infected, in order to optimize maternal health and maximize HIV-free infant survival. Such a move not only prevents perinatal transmission, but also better sustains the health of the mother, resulting in additional positive impacts on her family's health and well-being.

Question #5:

Will this budget request enable countries to transition from using outdated drug regimens, that are no longer in use here in the US and which are no longer included in global treatment guidelines?

Answer:

PEPFAR support will enable countries to scale up the number of people on treatment, and to improve the quality of treatment. Treatment guidelines, including regimens, are determined by partner countries. In addition to continued significant funding support for treatment in many countries, we will continue to provide

technical support as governments consider switching to newer formulations that may have more efficacy and lower toxicity but may involve trade-offs in terms of reduced scale-up.

Overall, PEPFAR will increase engagement with other partners such as the Global Fund to Fight AIDS, Tuberculosis, and Malaria (Global Fund), UNAIDS, and the Gates Foundation to improve programmatic quality and better achieve "value for money," including support for governments' efforts to resolve legal and regulatory barriers to the availability of high-quality, inexpensive HIV-related commodities from local or international sources. We are also collaborating to detect acquired drug resistance and develop strategies to respond to this resistance, which may include improved formulations.

Question #6:

Mounting new evidence now shows that HIV treatment is an effective prevention tool--and that reaching Universal Access to AIDS treatment could bend the curve of both infections and costs. It seems we face a choice of investing the resources now to reach at least 80% coverage or see escalating costs into the future without end. How does this budget request address this and does the administration have a strategy to work with other donors to reach universal access?

Answer:

We strongly agree that commitment from other donors, as well as partner countries themselves, is essential to achieving universal access to prevention,

treatment, and care. As of 2008, the U.S. contributed at least 51% of international donor government assistance to HIV/AIDS. The majority of this funding is directed through PEPFAR's bilateral programs, but U.S. contributions also account for roughly 29% of Global Fund resources directed to AIDS. AIDS is a shared global responsibility that requires a shared global response – no one source can meet the need for treatment or HIV/AIDS in general. Because of the scope of the epidemic, an effective response to global AIDS requires funding from multiple sources, including country governments, bilateral donors, regional actors, multilateral partners, private foundations, and nongovernmental organizations. To support a diverse funding base, PEPFAR is building the capacity of country governments to serve as the conveners and coordinators of these diverse funding sources.

An immediate priority of PEPFAR is to support countries in reassessing and identifying the scale of their national HIV/AIDS epidemic, to ensure interventions respond to existing and emerging realities. Governments should convene or expand inclusive processes in which demographic data is used to define and prioritize unmet need. Once the government has defined need and set priorities for action, PEPFAR will support the country in efforts to coordinate donors and investments. PEPFAR is encouraging its multilateral partners, including the Global Fund and

UNAIDS, to join similar coordinated assessments and processes at the national and international level.

Through the GHI, PEPFAR will explore possible financing and leveraging opportunities beyond those traditionally utilized in USG development assistance, including those involving public-private partnerships. PEPFAR will also expand its cooperation with multilateral partners to explore possible cooperation around internationally-supported financing mechanisms.

As we take steps toward sustainability, we must and will maintain support for those already on treatment, and we must partner with each country to identify a sustainable path of treatment enrollment so that we can scale up in a way that ensures quality treatment. It is important to note that the global community is still struggling to reach many of those who are sick, with extremely low CD4 counts, and it is a priority for PEPFAR to support treatment for these people.

Question #7:

According to the Administration's own budget documents, with the current FY11 request for GHI, the Administration will have provided approximately \$26.8 billion for the first 3 years of GHI (FY09-FY11) – the vast majority of it, over \$23 billion coming out of this subcommittee.

That implies that from FY12-FY14 you will need this committee to help provide the remaining \$36.2 billion in order to hit the GHI target of \$63 billion by FY14. By my estimation, that means an additional \$10 billion in NEW funds over the next three years for global health, based on this year's request alone.

Given the range of programs funded by the foreign assistance act, I'm worried we are putting too much pressure on subsequent budgets to make up the difference in funding. Shouldn't we be providing more funding this year for global health if you are planning to reach the GHI targets?

Answer:

Based on the experience of existing programs such as PEPFAR, as capacity is established, the ability to make effective use of the resources provided grows.

We believe the request for FY 2011 will keep us on track to meet the ambitious but realistic GHI targets. As we develop requests for the out years, we will continue to assess our experience to date and ensure that our requests keep us on track, and we look forward to working with you on the requests for each year.

Question #8:

How can we justify deferring additional funding increases for global health to future years when we know that many lives could be saved at a much cheaper cost if we increase our critical investments in things like HIV prevention and screening, family planning, and malaria control now?

Answer:

Please refer to the answer to Question #7.

Question #9:

I'm also particularly concerned about the extent that the State Department is coordinating with HHS and CDC in moving forward the Global Health Initiative.

It's clear that the CDC, as the premier public health agency in the world, with over 2,000 personnel in countries throughout the world, will need to play a big role in GHI. Yet I see that the CDC is not directly being given any new funds to implement the initiative.

Does State contemplate transferring any funds that you've requested for GHI to CDC this year? If so, how much do you plan to transfer and how much discretion will CDC be given?

Answer:

The CDC plays a critical role in USG global health efforts, including as an important implementing partner of PEPFAR and PMI. Within PEPFAR, for field activities, the amount of money allocated to CDC and all implementing agencies is decided at the country level by the Ambassador and country team as part of the annual Country Operational Plan process, based on the activities to be implemented. This office provides final approval and allocates funding to the implementing agencies. For headquarters costs, OGAC allocates funding to the implementing agencies based on the Headquarters Operational Plan process. Keeping in mind that GHI will be implemented using existing funding lines and authorities, these agency allocation practices will continue for PEPFAR.

Question #10:

If CDC doesn't get additional funds to help carry out the coordination and integration of programs that is so central to GHI, how will USAID be able to assist CDC in implementing GHI?

Answer:

USAID plays a critical role in USG global health efforts, including as an important implementing partner of PEPFAR and PMI. Within PEPFAR, for field activities, the amount of money allocated to USAID and all implementing agencies is decided at the country level by the Ambassador and country team as part of the annual Country Operational Plan process, based on the activities to be implemented. This office provides final approval and allocates funding to the implementing agencies. For headquarters costs, OGAC allocates funding to the implementing agencies based on the Headquarters Operational Plan process. Keeping in mind that GHI will be implemented using existing funding lines and authorities, these agency allocation practices will continue for PEPFAR.

Question #11:

As part of the legislation we passed to reauthorize PEPFAR, we set a target for our global AIDS programs to train a minimum of 140,000 new health workers in countries receiving US assistance to combat HIV/AIDS.

Can you tell us what your office is doing to reach this goal and what some of the obstacles to its achievement may be?

Answer:

PEPFAR countries have been working over the past year to plan for and monitor progress against the goal of expanding the health workforce by 140,000 new health care workers. OGAC and our implementing partners have been working closely with the PEPFAR country teams to provide technical assistance and support to their human resources for health (HRH) and the strategic information (SI) advisors to assist them to accurately report the number of new health care workers who are available to enter the health workforce each year as a result of full or partial PEPFAR support.

We recognize that there are many inputs into the production of new health care workers and have provided guidance, including definitions of the cadres of health care workers to be counted against this goal, through HRH technical considerations, indicator reference sheets and technical assistance. PEPFAR country teams contribute to this goal through training and sponsoring faculty, developing and supporting curricula, improving infrastructure to increase training

capacity or quality, and providing student scholarships and/or critically needed equipment.

In order to support a successful program at the country level, a health system needs epidemiologists, laboratorians, technicians, health economists, facility administrators, and a whole host of functional employees. PEPFAR has already engaged in some innovative programming to retain health care workers, including task-shifting, reemployment of retirees, and short-term hiring. In order to effectively manage and oversee programming, PEPFAR is also working with partner countries to attract and retain a well-trained, technically-oriented cadre of civil servants throughout government health programs. Potential incentives include salary support, creation of safe working conditions, opportunities for expanded training, and academic and research opportunities.

Question #12:

Can you provide us with a summary report of your strategy for achieving this goal, including providing information on any guidance or indicators that will be used to promote, facilitate, or track the training and retention of these health workers, and to ensure that they are employed in areas with substantial need?

Answer:

In consultation with the PEPFAR country advisors, two indicators were developed to track progress toward the goal of training 140,000 new health care workers. The primary indicator will report the number of new health care workers who graduate from a pre-service training institution or program each year. This indicator captures the number of health care workers who have received a minimum of 6 months training in their field and are recognized and/or certified by a government regulatory body, civil service or professional association or council. Included in this indicator are physicians, nurses, midwives, pharmacists, social workers and other health and administrative professionals or paraprofessionals who contribute to the protection, prevention or promotion of the health of the population.

A second indicator will capture the number of community health and social workers who successfully complete a pre-service training program. These workers have less than 6 months training for their positions in the workforce. These cadres represent an important part of country human resources for health strategies in delivering services to communities. They are also an important first step to

entering higher levels of the health workforce and represent a potential pipeline for higher level cadres.

Measuring retention, deployment and distribution are especially challenging in low-resource settings where information systems are not fully developed.

PEPFAR is working with HRH partners and countries to develop and improve Human Resources Information Systems (HRIS) and to improve the quality of the health workforce data they produce so that governments can make sound decisions about training and retention of health workers and address issues of appropriate distribution to urban and rural areas.

Over the next year OGAC and its partner agencies will document best practices in the training and retention of new health care workers and identify country-led solutions to workforce development.

WEDNESDAY, APRIL 14, 2010.

SECURITY ASSISTANCE

WITNESSES

DAVID T. JOHNSON, ASSISTANT SECRETARY, BUREAU OF INTERNATIONAL NARCOTICS AND LAW ENFORCEMENT AFFAIRS, DEPARTMENT OF STATE

ANDREW J. SHAPIRO, ASSISTANT SECRETARY, BUREAU OF POLITICAL-MILITARY AFFAIRS, DEPARTMENT OF STATE

AMBASSADOR-AT-LARGE DANIEL BENJAMIN, COORDINATOR FOR COUNTERTERRORISM, DEPARTMENT OF STATE

OPENING STATEMENT OF CHAIRWOMAN LOWEY

Mrs. LOWEY. Good afternoon. The Subcommittee on State, Foreign Operations, and Other Related Programs will come to order. I thank you, gentlemen, for appearing before us. I apologize for taking you away from your important responsibilities.

It is a pleasure seeing you after I was present at your swearing in.

Nice to see you all. I welcome our distinguished panel: Assistant Secretary of State for International Narcotics and Law Enforcement Affairs, David Johnson; Assistant Secretary of State for Political-Military Affairs, Andrew Shapiro; and the Coordinator for Counterterrorism, Ambassador Daniel Benjamin.

Our hearing today examines the security assistance programs under the jurisdiction of the U.S. Department of State, which totals \$9.9 billion, 25 percent of the foreign assistance request for fiscal year 2011.

Security assistance has been appropriately and significantly increased in the past 4 years to protect our national security in this dangerous world. Not only do these programs support key allies in the Middle East like Israel, Egypt, and Jordan; they combat terrorism in Afghanistan and Pakistan. They also fight piracy off the coast of Somalia and protect us from drug cartels in Mexico and Colombia.

Lack of resources and capacity in the State Department to address security needs in theatres like Iraq, Afghanistan, and elsewhere previously forced us to rely on the Defense Department. However, the provision of security assistance is integral to the conduct of our foreign policy, and aspects of our foreign affairs priorities, such as human rights, civilian control of the military, unified coordination of U.S. assistance, can be most effectively managed by the Secretary of State.

I am pleased to see that as we increase capacity in civilian agencies the President's budget is taking steps to reestablish the lines of responsibility for security assistance at the Department of State. With increased resources, it is critical that the Department dem-

onstrate capable implementation of the programs as well as appropriate oversight to ensure that programs achieve the desired objectives and that resources are not diverted or abused.

Therefore, as we proceed with the hearing, I would like the panel to address the following:

What are the appropriate roles and responsibilities of the State Department and other agencies, particularly DOD, regarding security assistance programs?

What role should DOD play, if any, in assisting police and other nonmilitary security forces?

What are we doing to address emerging threats from places like Yemen?

How can counterterrorism assistance be leveraged to combat al Qaeda?

In what situations might U.S. assistance for combating terrorism be perceived negatively by recipient countries' populations?

Lastly, I would like the panel to discuss security cooperation with Mexico. Drug trafficking and other criminal enterprises have intimidated and overwhelmed government institutions in much of Mexico. News reports continue to highlight the violence related to drug cartels and organized crime which, tragically, has touched your Department with the murders of three people associated with the consulate in ciudad Juarez, and the bombing of the consulate office in Nuevo Laredo.

Specifically, what effect is our assistance having on the flow of illegal drugs to the United States? What is the coordination between the U.S. and Mexico? How are the various U.S. agencies coordinating to ensure our security assistance is reinforcing our broader objectives for strengthening Mexican institutions? What more do we need to do? Is it more equipment? Do we need more equipment? How do we ensure that the roughly \$1.4 billion in assistance this committee has provided to Mexico is having its intended effect? How are the various U.S. agencies coordinating assistance to ensure security programs for Mexico are enhancing and complementing efforts to strengthen Mexican Government institutions?

Additionally, GAO released a report in December 2009, which found only 2 percent of the funding appropriated for Mexico had been expended. What is the current status of expenditures? How are such lag times allowed to exist; are they normal? Does the State Department find this acceptable? What is the State Department doing to accelerate delivery of equipment and training?

I continue to believe that the State Department must exercise management of security assistance and development programs, be they training and equipping of foreign security officers, forces, programs to deny terrorist organizations and rogue states the ability to acquire weapons of mass destruction or providing food, water, and health services to those in need. These activities must fall within the context of our overall foreign policy, and as such, the primary authority should be with the Secretary of State.

Again, thank you for testifying today. I look forward to our discussion. But before I turn to our witnesses, let me turn to Ms. Granger, the ranking member, for her opening statement.

Ms. Granger.

OPENING REMARKS OF MS. GRANGER

Ms. GRANGER. Thank you, Madam Chair, and thank you for accommodating my request for this hearing, especially at a very busy time. I know we are going to hear today about the priorities this administration has identified for the coming year and the assistance being requested, such as that for our long-term friend and ally, Israel, and for our partners in the Middle East, like Jordan and Egypt. They are so important, as is our help for Pakistan and improvements in the justice sector at all levels for the Afghan Government. But my focus today is our neighbor, Mexico, and the frightening increase in violence there.

Just as the Congress was finishing here before leaving for our Easter break, Juarez, Mexico, a city just across the Texas-Mexico border, was referred to in the press as the most dangerous city in the world. Juarez, Mexico. The mayor of that city spoke just days ago at the University of Texas. There was very tight security and there was an overflow crowd. The mayor talked about the violence in Juarez. Five thousand murders, dozens of businesses torched, death threats against him and the police and other elected officials.

At our southern border, drug traffickers in places are turning their guns and grenades against the Mexican army. They are using armored cars and grenade launchers and trying to trap members of the military by blocking access on highways.

Yesterday, it was reported that Mexican smugglers are using cloned Border Patrol vehicles. Steven Cribby, a spokesman for the Department of Homeland Security, said that assaults on Border Patrol agents are up 16 percent over last year, and there are reports of bounties of \$250,000 offered for kidnapping and murdering border agents.

Just last month, several U.S. citizens, including, of course, your employees, were gunned down, and last week a rancher was shot and killed on his ranch just this side of the Mexican border. That makes, according to a report today, 22,700 people killed since President Calderon took office and took on the gangs and drug cartels.

We are now at \$1.33 billion of the \$1.4 billion we pledged for the Merida Initiative, but the situation today is worse than when we started this important help. If we have additional help in the future, my concern centers around how it is turning out today, tomorrow, and next week, and the importance of us looking not at numbers and not at dollars as we sign something, but how is it getting the help that is needed right there.

Secretary of Defense Gates, Secretary of State Clinton, and the Chairman of the Joint Chiefs of Staff Admiral Mike Mullen were all in Mexico, as you know, just weeks ago, looking at this emergency, and they certainly understood what we know and that the help we secured has been very slow in coming. Admiral Mullen in a defense hearing in March after returning from Mexico said, The house is on fire now. Having the fire trucks show up in 2012 is not going to be particularly helpful.

You can play a very key role, and of course you would, in addressing the concerns we have. And I will use my question time to focus on some of the problems as I see them, but the situation on

the border seems to be getting worse. I believe it is no less a crisis than it was. We have a pledge. We are meeting our pledge. But my concern is how is it playing out. I will ask the witnesses my questions when it comes back for questions.

Thank you, Madam Chair.

Mrs. LOWEY. Thank you. Your statements will be placed in the record. Please feel free to summarize in your oral statements so that we can leave time to get to everyone's questions hopefully before the votes go off.

The order of recognition will be Secretary Johnson, Secretary Shapiro, Ambassador Benjamin.

Please proceed, Secretary Johnson.

OPENING STATEMENT OF ASSISTANT SECRETARY JOHNSON

Mr. JOHNSON. Thank you very much. Chairwoman Lowey, Ranking Member Granger, distinguished members of the committee, thank you for inviting us to discuss the President's fiscal year 2011 budget request for the Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL).

The INL Bureau, which I have the honor to lead, helps countries around the world develop their own capacity to fight crime, administer justice, and safeguard the rule of law, all of which are critical to our own national security and foreign policy objectives. Helping our partner nations become responsible international partners with full sovereignty within their own borders denies safe haven to international criminal threats.

For fiscal year 2011, the President has requested approximately \$2.1 billion in international narcotics control and law enforcement funds, or INCLE funds, to combat transnational crime and fight illicit trafficking. Of this request, 42 percent directly relates to counternarcotics. This marks a dramatic shift from 2 years ago when nearly 72 percent of fiscal year 2009 INCLE funds were counternarcotics focused. This shift reflects our refocused emphasis on helping partner nations establish their own capacity to administer justice and combat illicit actors.

Each of our activities, be it civilian police training in Iraq or correction systems in Mexico, is designed collaboratively with host nations to address their specific needs. As a result, some of our largest programs are designed to meet our largest challenges. But this isn't always the case. Many of the relatively smaller security assistance programs that INL operates in underdeveloped or critical areas, ranging from Central America to West Africa, have a major impact in staving off future conflict and combating development threats.

The President's budget request your support of INL's contribution in key areas such as Iraq, Afghanistan, Pakistan, Haiti, Mexico, and the West Bank, but it also requests your support for our smaller programs. Efforts to combat counternarcotics in West Africa will be instrumental in supporting stability in the region. Police training and support to the criminal justice systems in Lebanon and Liberia, as well as our support for Sudan, continue to meet urgent needs that support these countries' criminal justice sectors.

Regional programs in the Caribbean, Central America, the Trans-Sahara, and East Asia, on drug treatment and prevention,

intellectual property rights, anti-crime and anti-corruption, support for the United Nations Office on Drugs and Crime and the Organization of American States Inter-American Drug Abuse Control Commission and the continued support for the International Law Enforcement Academies, all of these programs are instrumental to our own security and our efforts to support the rule of law, aims that President Obama and Secretary Clinton and all of you strive for.

Given the growing importance of the security sector reform to our Nation's foreign policy, we can and will more effectively adapt to battlefield environments so that our contract management and oversight can be fully carried out in the manner expected by taxpayers and by you.

Madam Chairwoman, Ranking Member Granger, INL is committed to continuing our strong partnership with your subcommittee so we can provide the effective programmatic security assistance that our international partners need.

I look forward to addressing your questions. Thank you.

[The statement of Mr. Johnson follows:]

**Written Testimony of
Assistant Secretary David T. Johnson
before the House Appropriations Subcommittee on State,
Foreign Operations, and Related Programs
at 1:30pm on Wednesday, April 14, 2010**

Chairwoman Lowey, Ranking Member Granger, and other distinguished Members of this Subcommittee, thank you for inviting me here today to discuss the President's FY 2011 Budget Request for the Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL).

The INL Bureau, which I have the honor to lead, assists countries around the world in their efforts to develop their own capacity to fight crime, administer justice, and safeguard the rule of law priorities of critical interest to our own national security and foreign policy objectives. Our assistance works to develop the bedrock of civil society-- promoting safe, secure environments where laws can be enforced, rights are protected, and sustainable development can proceed. Our goal is to help our partner nations realize their own ambitions to become responsible international partners with full sovereignty over their borders and the capability to deny safe haven to international criminal threats.

INCLE programs, thanks to your support, have accomplished much to realize President Obama and Secretary Clinton's foreign policy vision. As stewards of increasingly more taxpayer dollars for critical national security and foreign policy objectives, Madam Chairwoman and Ranking Member Granger, INL is committed to continuing our strong partnership with your Subcommittee, to continue providing effective programmatic security assistance to our international partners, and to conducting our work to the high standards you expect.

For Fiscal Year (FY) 2011, the President is requesting over \$2.1 billion in International Narcotics Control and Law Enforcement (INCLE) funds to combat transnational crime and illicit threats that impact both national and global security. Of this request, only 42 percent is directly related to counternarcotics, marking a dramatic shift from FY 2009, when approximately 72 percent of FY 2009 INCLE funds were counternarcotics focused. The shift reflects growing

world-wide concern for civilian security capabilities, and the transition of responsibility for a transformed police development program in Iraq from the Department of Defense to the Department of State.

The need for our security capacity building programs is growing in zones of ongoing conflict such as Iraq and Afghanistan. In recent days, many of the critically important results that INL programs have achieved, and continue to achieve, have been overshadowed by the challenges we have faced adapting our contract management efforts to these increasingly difficult operating environments.

Over the last several years, INL has increased its contract oversight staffing substantially, but not at the accelerated pace of growth in resources that you've entrusted us to manage. By necessity rather than by design, our assistance programs have at times relied extensively on contract personnel, who have been permitted to operate in environments where government personnel have in the past been much more restricted. Where our efforts can improve is in more extensively adapting our contract oversight in theaters of war where military operations and complex security requirements limit our on-the-ground staffing and our staff's ability to safely travel to training sites. Part of my plan moving forward involves human capital investments that will lead to an increase in government oversight personnel operating in-theater and on-site at key contract locations, as well as a greater reliance on U.S. Government employees. Our contract management and financial oversight efforts not only strengthen our commitment to the American tax payers, it will give us the tools to more effectively execute our assistance programs located in every corner of the world.

Western Hemisphere

In the Western Hemisphere, many of our partners continue to face considerable threats from transnational criminal and drug trafficking organizations and those organizations' violent activities that endanger citizen safety. As Secretary Clinton has noted, the United States has a "shared responsibility" in this regard. We need to assist states with developing their internal

capacities to safeguard their citizens, along with reducing drug consumption within our own borders to undermine the profitability of transnational crime.

The President's FY 2011 budget requests your support for our programs in drug producing countries such as Colombia, Bolivia, Peru and Mexico, as well as the Central American and Caribbean countries through which nearly 600 metric tons of cocaine and significant quantities of heroin and marijuana flow to the United States. The President's FY 2011 request also includes funding for other transnational anti-crime initiatives and for critical institutional and capacity building programs to support the development of a modern, transparent, and effective judicial system to reduce corruption, and enhance the protection of human rights.

We have witnessed the flexibility of drug traffickers as they adapt to pressures and shift their transportation routes, inflicting damage along the way. As a result, our current initiatives are intended to reduce sanctuaries and limit the abilities of transnational criminal groups to adapt to these pressures. While challenges remain, our pressure on criminal organizations in Mexico and in international waters is forcing illicit actors to shift their focus into the territorial waters and lands of Central America.

Our justice sector programs in the Western Hemisphere for FY 2011 are designed to build effective partnerships that can better develop, mobilize, and sustain the security capabilities of the whole region.

An excellent example is Colombia, where the Colombian National Police, along with other Colombian government agencies have benefited from significant U.S. training and assistance. They are now at the forefront of sharing their expertise with other police forces and judicial institutions throughout the hemisphere. From 2007, Colombia participated in a U.S.-led program that trained approximately 5,800 Mexican police and judicial officials, and more than 150 police officers from 19 countries have taken part in the elite Colombian police training course. In the year ahead, we will press forward with the Central America Regional Security

Initiative and the Caribbean Basin Security Initiative so that our program nation partners in both regions can benefit more fully from the regional capacity that we have helped to develop.

Ten years after the start of Plan Colombia, we have also seen the people of Colombia and their government take back control of their country from the illicit actors and terrorists organizations that are fueled by the drug trade. With U.S. Government support, Colombia has expanded security into areas previously held by the FARC, disrupted the drug trade, weakened the FARC and implemented a modern oral adversarial system of criminal justice, which has provided more transparent justice and improved conviction rates from less than three percent to over 60 percent. What's more, the U.S. Government estimates that Colombia's maximum potential production of pure cocaine dropped 39 percent in 2008 and that cultivation dropped by 29 percent. Colombia's interdiction capacity also continues to grow. In 2009, Colombia seized a record 288 metric tons of cocaine and coca base. While much has improved in Colombia over the last ten years, challenges remain. Criminal organizations involved in the drug trade remain violently active, Colombian security forces need to improve their protection of human rights, and the rule of law must be embedded in rural and conflict areas of the country.

In FY 2011, our program will focus on addressing these issues by further developing the capacity of Colombian institutions to consolidate and expand the achievements in democracy and security. This will include enhancing the capability of rural police, expanding the reach of judicial institutions and supporting Colombian-led interdiction and eradication programs that are closely coordinated with alternative development.

As you can see from the Colombia FY 2011 budget request, we have been working to "nationalize" our efforts in Colombia, i.e., transfer to Colombian institutions additional financial and operational responsibility for many programs. We will work closely with the Government of Colombia on further areas to nationalize, but need to do so in a measured, coordinated manner. Our successes in Colombia are also paying dividends throughout the region. The Government of Colombia is currently providing significant counter-drug, criminal investigative, and other training to Mexico under a Mexico-Colombia bilateral cooperation program. This presents an

important leveraging of our assistance to our regional and global partners contending with similar problems, all of which affect our national security interests.

Mexico has taken bold steps to confront increasingly violent drug trafficking organizations, and U.S.-Mexican cooperation is close and productive. Our FY 2011 assistance request of \$292 million will support efforts to build police and judicial institutions, counter corruption, assist in the reform of border control, reinforce the rule of law through judicial reform, and help transform Mexico's corrections systems. Perhaps most ambitious and most important, Mexico is transforming its judicial sector to a system of oral adversarial trials similar to what has taken place in Colombia. Our assistance will include extensive training for prosecutors and judges in furtherance of this goal.

To provide robust inspection capability, we have provided non-intrusive inspection equipment for both border ports of entry and for interior checkpoints that Mexico uses in the search for illegal drugs, money, and weapons. In FY 2011, we also aim to improve the vetting of Mexico's law enforcement personnel, help reform and improve the Government of Mexico's management of its correction systems, upgrade law enforcement communications to promote connectivity and maintain operational integrity, and provide protective gear for Mexican police who contend with organized crime. We will also continue to work with Mexico on a special plan for Ciudad Juarez to provide greater security for that city's citizens.

Our programs in Central America have also achieved much on which we aim to build further. In 2009, with our support, Mexico and Central America interdicted over 124 metric tons of cocaine and over 18 metric tons of crack, heroin, ephedrine, or pseudoephedrine, seized roughly \$24 million in suspect funds, and arrested or detained over 91,332 individuals on drug-related crimes. In FY 2011, we plan to focus on building capacity and providing equipment and technical assistance to the justice sector – police, prosecutors, judges, and corrections – to deal with the trafficking of drugs and arms, money laundering, and violence against citizens. We will also continue to work with Central American governments to break up criminal gangs, some with reach into the United States as well as from the United States, institute programs for youth at risk, and support crime and violence prevention initiatives such as community policing.

For Guatemala in FY 2011, we plan to continue to provide counternarcotics air mobility support to the government's effort to exercise greater control in remote areas and clamp down on violence spurred by inter-cartel fighting, which has deeply impacted Guatemalan communities.

Afghanistan and Pakistan

INCLE programs in Afghanistan and Pakistan aim to lay the foundation for lasting change in the region. But the situation on the ground in both nations is sobering and while much has been accomplished, much work lies ahead. For FY 2011, the President's budget request will broaden INL's support and engagement at the provincial and district levels of Afghanistan for counternarcotics and rule of law programs, and continue to build capacity within the Government to sustain and support these initiatives. In Pakistan, funds will be used for border security, law enforcement, and judicial system programs. In FY 2011, the total budget request for all Afghanistan programs is \$450 million, and \$140 million for Pakistan programs.

The President's request includes \$240.6 million to support counternarcotics programs that will reduce opium poppy cultivation and demand, as well as increasing the capacity of the government of Afghanistan to reduce supply, provide treatment options for addicts, and conduct law enforcement operations to interdict drugs and target traffickers. Included in this request is \$5 million to support the United Nations Office of Drugs and Crime's cultivation, verification and assessment surveys to communicate the motives behind illicit cultivation, opiate trade, and the impact of alternative development programs, and \$100 million to support INL's aviation support for all of our programs in Afghanistan. Funds will be used to operate and maintain existing aircraft, not for aircraft acquisition. We are also requesting \$48.6 million to increase the size and operational infrastructure of the Counternarcotics Police of Afghanistan's specialized interdiction units and to provide interdiction training for partner nations in Afghanistan including those from Central Asia.

Our counternarcotics efforts also include critical support for demand reduction programs to allow the Government of Afghanistan to assist its citizens in combating addiction. We are

requesting \$14 million to expand Afghanistan's treatment capacity, including specialized programs for women and children. With your support, we expect an expansion from 16 to 32 residential drug treatment centers in the upcoming year, as well as the start-up of a clinical trial to develop and implement the first treatment protocols worldwide for drug-addicted children (infancy to seven years). The President's budget also requests \$8 million for another critical element of supply and demand reduction in Afghanistan: public information campaigns. In FY 2011, we plan to support a Counternarcotics Public Information program, which will provide training for local government officials on anti-drug messaging, and public information campaigns tailored for local leaders, farmers, women and youth. \$20 million has also been requested for the Counter Narcotics Advisory Teams (CNAT), which build capacity at provincial levels to support governors' counternarcotics campaigns in seven provinces, monitor demand reduction activities, and providing outreach to women and youth groups.

Beyond our counternarcotics programs, the President's request also includes \$190 million for administration of INL's criminal justice programs in Afghanistan to strengthen institutions, train practitioners, develop Afghan judicial capacity, secure prisons, protect citizen rights, combat corruption, build linkages with Afghanistan's traditional justice system, and develop leadership capacity for the future. Of this request, \$73 million is for the Justice Sector Support Program (JSSP), which provides training and mentoring at provincial and district levels to prosecutors, defense attorneys, judges and investigators on issues such as anticorruption, counternarcotics justice and the judicial response to major crimes. The JSSP will also develop alternative dispute resolution mechanisms for use throughout Afghanistan and will conduct conferences focused on human rights, women's legal rights, domestic violence, and constitutional rights throughout Afghanistan. The JSSP will also work to further develop in house training programs such as human resources capabilities so that our efforts and training yield programs that can be sustained by the Afghans. INL is working alongside the interagency as well as military partners to ensure that INL funded programs and activities are closely aligned and coordinated with USG activities to support the development of the justice sector in Afghanistan.

The FY 2011 budget also includes \$10 million to provide training, technical assistance, and operational security for prosecutors and judges handling Afghanistan's national security cases which are of particular interest to the United States Government; \$12 million for anticorruption training initiatives; and \$15 million in grants which will be awarded to NGOs and other civil society organizations that advance public awareness of legal rights throughout Afghanistan, including especially designed programs for women and minority populations. Critically important to the development and sustainability of Afghanistan's criminal justice system is a humane and secure corrections system for men, women, and juveniles. INCLE programs will support further development of Afghanistan's criminal justice systems toward these goals with \$80 million in FY 2011 funding. Beyond infrastructure development and central corrections program guidance, INL will also deploy corrections mentors to virtually all provinces to assist Afghan leadership with their corrections programs and help them to implement critical deradicalization, reintegration, and rehabilitation programs.

The President's budget also includes a request of \$140 million for our critical programs in Pakistan. Of this amount, \$42.5 million is for Pakistan's border security operations, including the operation and maintenance of the Pakistan's Ministry of Interior Air Wing comprised of U.S. Government owned rotary and fixed wing aircraft. \$83 million is for provincial law enforcement and justice training programs has also been requested. Law enforcement funds will be used to continue the provision of training and resources to civilian law enforcement units in Islamabad, the North West Frontier Province (NWFP), the Federally Administered Tribal Areas (FATA), and the provinces of Balochistan, Punjab, and Sindh. Resources will focus on female police training, civil disorder response units and police reform initiatives. Funding will also support rule of law programs to continue and expand training and technical assistance for prosecutors, judges, and other members of the criminal justice system in Pakistan.

In FY 2011, \$9.5 million will be dedicated to counternarcotics programs in Pakistan. This includes training and resources to enhance interdiction efforts; support to help maintain the operational tempo of law enforcement entities with counternarcotics mandates; the fostering of legitimate high-value crops as an alternative to poppy; and road construction and small infrastructure schemes in current and former opium poppy cultivation areas. INCLE programs

for FY 2011 also include demand reduction efforts through local outreach and drug treatment centers.

Near East (including Iraq)

Based on a comprehensive U.S. interagency assessment of Yemen's criminal justice sector conducted last October, INL is working to develop a comprehensive program for strengthening the government's ability to police and maintain security over its territory. We aim to continue our work through the multilateral donor coordination framework, the Friends of Yemen Justice and Rule of Law Working Group, to equitably share the burden of criminal justice sector development with partners.

In Lebanon, we have worked over the past three years to establish a professional Internal Security Force capable of protecting Lebanon's sovereignty and the Lebanese people. With basic law enforcement infrastructure in place, in FY 2011 we aim to intensify our work to help Lebanese security forces implement a comprehensive, multi-year border security strategy, which is an integral part of our national counterterrorism efforts.

In the West Bank and Gaza, INL is working to strengthen the Palestinian Authority (PA) Security Forces consistent with conditions agreed to under the Roadmap. We are currently providing training, non-lethal equipment, and infrastructure support to enable the civilian police and the PA security forces maintain law and order throughout the West Bank. We hope to use FY 2011 funds to increase the pace of training and equipping the National Security Forces and to add rule of law programs that have been requested by the Palestinians.

Throughout the region, INL contributes towards the Trans-Sahara Counterterrorism Partnership (TSCTP), a multi-faceted, multi-year strategy aimed at defeating both terrorist and criminal organizations, by strengthening regional counterterrorism capabilities, enhancing and institutionalizing cooperation among the region's security forces, promoting democratic governance, and reinforcing bilateral military ties with the U.S. Government. The President's

FY 2011 budget requests support of TSCTP to provide training, technical assistance, and equipment with a particular emphasis on counterterrorism objectives.

U.S. national security and strategic interests throughout the Near East are intrinsically linked with the future of Iraq. Continued assistance to the Iraqi civilian police forces is vital to supporting Iraq's future as a nation governed by the rule of law rather than sectarian elements – conditions which protect U.S. interests in the region.

Over the past several years the Department of Defense has assisted the Iraqi Security Forces and made great progress in building basic level policing capacity and skills to address counterinsurgency threats. As our relationship with Iraq transitions with the drawdown of U.S. military troops, continuing to support the development of the Iraqi police remains critical to Iraq's future stability and to achieving the Administration's vision of a sovereign, stable, and self-reliant Iraq. With basic security improved, the Government of Iraq (GOI) has asked for additional civilian-led assistance focusing on advanced skills training and strengthened police capability at senior levels of leadership. The Department of State and INL will assume responsibility for police development in Iraq from DoD on October 1, 2011. This civilian program will promote the rule of law in Iraq by supporting the Iraqi Ministry of Interior (MOI) in its progress towards becoming a self-sufficient organization that supports and protects the rule of law and is the primary provider of internal security in Iraq.

This new civilian-led program will include 350 U.S. Government and contracted subject matter expert advisors, many of whom are current or former Federal, State, and local police officers from the United States. They will be based out of three program hubs in Baghdad, Basrah and Erbil. Working on mobile advisory teams, these advisors will travel by air and ground to provide consulting and advising services to senior levels of the GOI at approximately 50 field locations including the MOI, agency headquarters, police colleges and academies, and regional and provincial police headquarters on topics that include: strategic planning, management, budgeting, advanced investigatory skills, and police curriculum development. Rather than focusing on increasing the numbers of basic recruits, the INL-led program will

concentrate on building senior leaders' capacity to effectively manage and sustain the full range of MOI and policing operations.

This program will have broad geographic and functional coverage throughout the country and reach the largest possible cross section of senior officials at important Iraqi police institutions. At its conclusion, the program will enable civilian police forces to assume full responsibility for Iraq's internal security and provide senior leadership with the management, leadership and technical skills to effectively administer criminal justice sector responsibilities.

The requested \$517.4 million in the FY 2010 Supplemental and \$294.6 million in the FY 2011 based budget request will provide for necessary start-up requirements and an initial three months of operations after which FY 2012 funds are expected to be available. We will seek appropriate GOI contributions which may include personnel support, equipment, and no-cost leases of land and facilities. State will not provide any equipment to the Government of Iraq as part of the police development program.

Additionally, the FY 2010 Supplemental and FY 2011 Budget Requests will fund the full range of a fully-functioning criminal justice system that supports the Government of Iraq's objective of a stable, secure, self-reliant and independent nation governed by the rule of law. We will assist the GOI in developing a criminal justice system that contributes to stability and is sufficiently effective and fair that Iraqi citizens will turn to courts and other government institutions, rather than to violent militias and other "alternative" forms of justice, to resolve disputes and seek justice. Our courts program focuses on the establishment and development of court administration, judicial capacity building, and judicial security through such programs as training judicial protection personnel (a U.S. Marshals-type force); continuing legal education and training in criminal investigations, criminal case preparation, and case management to judges, judicial investigators, prosecutors, and court administrators; connecting the courts, police and prisons through a case management database; and providing legislative assistance with the drafting of legislation relating to the judiciary and criminal law and procedure and providing Rule of Law Advisors at U.S. Government posts across Iraq. Support to corrections will focus on supporting advisors to the GOI's Iraqi Corrections System at the upper administrative level.

in the areas of correctional management, human rights and inmate rehabilitation, and we will provide subject matter expertise to the Embassy.

Additionally, FY 2011 funds for drug demand reduction will help the GOI develop a nation-wide demand reduction strategy in coordination with physicians and public health practitioners. The plan will draw on the influence of leaders in local religious, educational, and community institutions.

Africa

INCLE programs in Africa bolster law enforcement agencies and promote the rule of law—two necessary elements for the realization of shared U.S. and African goals for security and development. The President's requested funding in FY 2011 will support programs in various African countries to combat narco-trafficking, counter terrorist operations, bolster civilian law enforcement capabilities, develop border security capacity, address sexual and gender based violence, and combat organized crime and corruption.

Drug trafficking through West Africa has increased dramatically and is a threat to regional stability and INCLE programs are a key element in the U.S. Government's response. For example, in 2005 an estimated 1 percent of the global cocaine supply transited West Africa but since 2005, that share has increased to almost 17 percent. The vast majority of the cocaine transiting West Africa goes to Europe. However the proceeds – believed to be as much as \$450 million a year – flow to the same drug trafficking organizations that move cocaine to the United States. Trafficking also threatens stability in West Africa. Guinea-Bissau, the most affected state in the region thus far, is in real danger of degenerating into a narco-state. In a region with a history of instability, weak governance structures, and endemic corruption, Guinea-Bissau could become a harbinger of what may happen to its neighbors.

The FY 2011 INCLE request will support the interagency agreement that U.S. Government counternarcotics assistance in West Africa should build host government capacity to effectively counter drug trafficking organizations. We recognize that our European partners

have a particular operational interest in interdiction, which complements the U.S. Government focus on developing institutions capable of responding to complex transnational crime.

In Liberia, INCLE assistance has greatly increased stability, and continued support is important to sustain the development of a formal justice system there, in anticipation of the drawdown of the United Nation's Mission in Liberia in 2012. The President's request will enable INCLE-funded advisors to continue their efforts to train, equip, and mentor Liberian police, including the newly developed Emergency Response Unit, and justice sector institutions that support institutional reform and enhanced capacity.

In Sudan, our programs are of critical importance toward maintaining peace and security leading up to the 2010 national elections and the 2011 referendum on Southern Sudan's statehood. INCLE programs currently assist Southern Sudanese police, judicial and corrections institutions, directly and through the United Nations Mission in Sudan with training and equipment to enhance their operational effectiveness. Additionally, we continue to help to maintain a safe and secure environment in Darfur by equipping and training the United Nations-African Union Mission in Darfur (UNAMID) police units who provide critical protection for civilians.

INCLE programs are a core activity in building basic policing skills to combat terrorism under the Trans-Sahara Counterterrorism Partnership (TSCTP) and East Africa Regional Security Initiative (EARSII). Developing general policing capabilities in TSCTP and EARSII member states builds law enforcement and border control services with the capacity to investigate and dismantle criminal and terrorist groups, interdict trafficking and smuggling, manage crime scenes, and cooperate with regional and USG law enforcement agencies in investigations of complex transnational crimes.

Global Programs

Many of our security and judicial assistance programs are implemented through bilateral partnerships, but more still are realized through close partnerships with regional organizations

and other multilateral partners. In FY 2011, INCLE global programs will help to combat transnational crime and illicit threats such as corruption, money laundering, cybercrime, alien smuggling, organized crime, criminal gangs, and illicit networks; and provide peacekeeping training in addition to and beyond what I've discussed in my regional overview of the President's budget request. Our programs also work with international partners to help develop internationally recognized policy frameworks and standards on crime and provide assistance in meeting those standards worldwide. For example, we will continue to support global efforts to combat organized crime through implementation of the United Nations Convention against Transnational Organized Crime (and its three protocols against human trafficking and migrant smuggling and trafficking in firearms) and the United Nations Convention against Corruption (UNCAC). These international instruments, along with the three United Nations counter-drug conventions, create a broad legal framework for mutual legal assistance, extradition, and law enforcement cooperation. FY 2011 funds will also allow us to pursue greater cooperation with international organizations and groups such as the United Nations Office on Drugs and Crime, the Organization of American States, the European Union, and the Financial Action Task Force and its regional sub-groups.

Our global programs will continue to make prevention and treatment a priority in FY 2011, including pursuing efforts to reduce drug use, related crime, and drug-related threats posed by drug use methods that lead to the spread of HIV/AIDS. We plan to support sub-regional demand reduction training centers, regional/global knowledge exchange forums, drug-free community coalitions, research/demonstration program development, and initiatives to increase and improve drug treatment services for women.

The FY 2011 budget request's your continued support for our existing International Law Enforcement Academies in Bangkok, Budapest, Gaborone, Roswell, San Salvador and the Regional Training Center in Lima. We also plan to continue our work to establish the Regional Security Training Center in West Africa. The center will strengthen law enforcement and counter-terrorism efforts by creating an infrastructure for capacity building, information-sharing and coordination among strategic African nations.

INCLE global programs also include our Aviation program which I've discussed at times throughout this testimony. This program comprises 240 active aircraft in eight countries to that provide safe, professional aviation services that facilitate counternarcotics and other law enforcement related missions. Many of our security and judicial capacity-building programs could not be administered without this support due to extended distances, lack of infrastructure such as road networks, slow alternative forms of transportation, security hazards, and other logistical challenges in many of our program countries. Critical functions provided or enabled by air assets include eradication, interdiction, reconnaissance/surveillance, logistical movement, and transport of key personnel to mission locations. Our Interregional Aviation Support program provides support from Patrick Air Force Base to make the country programs possible. While outside the scope of the INCLE budget request, the INL Airwing also manages and supports, with D&CP funding, aviation programs in support of our Embassies in Baghdad and Kabul. We manage these programs jointly in these countries to promote maximum economy and efficiency.

We also plan to strengthen our Office of Civilian Police and Rule of Law Programs (CIV) to continue the expansion of our USG post-conflict police and criminal justice programs, and assist those already in operation. In 2008, our CIV programs provided immediate support to the Georgia crisis and in 2010, the Haiti earthquake, by deploying seasoned police and criminal justice experts to the field within weeks of the crisis. To strengthen this function, the CIV office is in the process of hiring additional police, corrections and criminal justice development experts, both through INCLE-funded positions and through funding provided for the Civilian Response Corps Active Component. We are also building oversight capacity for a mandatory pre-deployment training program, which provides a comprehensive training regimen for all of our advisors deployed to the field.

Oversight and Management

We have implemented a series of improvements to refine our contract oversight and management. Since more than half of INL's annual contract activity occurs in Iraq and Afghanistan, the bureau established an integrated business model in April 2006 to manage and oversee our contracts for Iraq and Afghanistan. In conjunction with the contracting officer, this

model involves three main components: program officers, contracting officer's representative (COR) and COR staff; and in-country contracting officer's representatives (ICORs) in Iraq and Afghanistan.

INL's contract management oversight team for both countries consists of 87 staff, including 27 program officers in Iraq, Afghanistan, and Washington who provide program direction and policy oversight and monitor our contractors' performance. Currently, seven ICORs each in Iraq and Afghanistan provide contract oversight in the field, with more ICORs coming on board in the coming months, and the COR and twenty-eight COR staff in Washington are dedicated to conduct contract support oversight and administration from the U.S. This arrangement – with Washington providing much greater and more involved support than we would in a peacetime environment – has been developed to deal with the unique challenges of ramping up capacity while conflict continued.

As we have refined our contract management oversight, we have strengthened Statements of Work (SOW) with additional contract accountability tools and increased opportunities to compete the contracts. For example, INL incorporated Quality Assurance Surveillance Plans (QASP) in the current Iraq and Afghanistan task orders. These plans allow us to better evaluate whether contract deliverables and performance comply with the contracted statements of work. We do this through site evaluations, inspections, and representative sample reviews.

As the Civilian Police base contract comes up for renewal, we at INL are broadening our acquisitions strategy for major requirements to encourage competition. We are working to continually improve our processes and plans to enhance our efforts even further with additional staffing in-country.

We will complete standard operating procedures for the ICORs as well for domestic contract management oversight support personnel involved with the Iraq and Afghanistan task orders, by June 30, 2010. The standard operating procedures will be tailored so they can be used for all of our contract management efforts moving forward.

We are also applying the lessons we have learned in Iraq and Afghanistan to our oversight and management for the Merida Initiative and its successor programs, in an effort to increase transparency and accountability. We standardized management processes and controls as well as centralized the financial management function of all Merida Initiative posts. We made a point to properly staff the initiative up front, establish systematic program and contract oversight, and put in place an internal audit function, which we are expanding bureau-wide by May 2010, beginning with tests of our management controls for Afghanistan and Iraq.

We are committed to improving our business process and systems to conduct effectively our due diligence over the public funds entrusted to the bureau.

Madam Chairwoman, the successes our assistance programs have achieved, and our widely recognized expertise in law enforcement and criminal justice programs is due to our people, their knowledge, and their hard work. Building on the recommendations for improvement from the oversight community and this Subcommittee, we hope soon also to be recognized for our agility and proficiency in contract management and oversight, too. Given the growing importance of security sector assistance to our nation's foreign policy, we can and will more effectively adapt to battlefield environments so that our contract management and oversight activities can be fully carried out to the degree expected by taxpayers and this Subcommittee. Thank you again for your support, Madam Chairwoman. I would be happy to address any questions the Subcommittee may have.



Biography



David T. Johnson

Assistant Secretary

BUREAU OF INTERNATIONAL NARCOTICS AND LAW ENFORCEMENT AFFAIRS

Term of Appointment: 10/31/2007 to present

David T. Johnson was sworn in as Assistant Secretary for the Bureau of International Narcotics and Law Enforcement Affairs on October 31, 2007. Prior to his appointment, Mr. Johnson served as Deputy Chief of Mission for the US Embassy in London from August 2003 until July 2007.

Mr. Johnson, of Georgia, entered the United States Foreign Service in 1977. He served as the Afghan Coordinator for the United States from May 2002 to July 2003. He served as United States Ambassador to the Organization for Security and Cooperation in Europe (OSCE) from January 1998 until December 2001. Before serving as Ambassador to the OSCE, Mr. Johnson was Deputy Press Secretary for Foreign Affairs at the White House and Spokesman for the National Security Council from 1995 to 1997. Previously, he served as Deputy Spokesman at the State Department and Director of the State Department Press Office; United States Consul General in Vancouver; and Deputy Director of the State Department's Operations Center.

Mr. Johnson has also worked in the Department of State on European security issues and as desk officer for Berlin, Austria, and Switzerland; an economic officer at the U.S. Embassy in Berlin; and a vice consul at the U.S. Consulate General in Ciudad Juarez. Before joining the Foreign Service, Mr. Johnson was an Assistant National Trust Examiner with the Treasury Department's Office of the Comptroller of the Currency.

Mr. Johnson earned a B.A. in economics from Emory University in 1976. He attended Canada's National Defense College in 1989-1990. He is married with three children.

OPENING STATEMENT OF ASSISTANT SECRETARY SHAPIRO

Mr. SHAPIRO. Chairwoman Lowey, Ranking Member Granger, members of the subcommittee, thank you for holding this hearing today. I appreciate the opportunity to testify on how the State Department's security assistance programs contribute to our collective efforts to improve national and international security.

Since being established a half century ago, the Bureau of Political-Military Affairs has developed a strong partnership with the Department of Defense in addressing the serious international challenges that the United States faces today. One of the Bureau's most important responsibilities is managing security assistance funds, which collectively total more than \$7.2 billion requested for fiscal year 2011. These funds are important tools to the United States in today's security environment, and we work to ensure that they support our foreign policy objectives. Given the difficult economic times that many American families face, we are acutely aware of the need to make every dollar entrusted to us by the taxpayers deliver the maximum benefit to our national security.

PM manages security assistance through five accounts: Foreign Military Financing, or FMF; Peacekeeping Operations, PKO; International Military Education and Training, or IMET; Nonproliferation, Antiterrorism, Demining and Related Programs, NADR, and the Pakistan Counterinsurgency Capability Fund (PCCF).

The fiscal year 2011 request for the Foreign Military Financing Account is \$5.47 billion. The programs further U.S. interests around the world by ensuring that coalition partners and friendly governments are equipped and trained to work towards common security goals and to share burdens and joint missions. The request supports funding for coalition partners and allies and assists in our efforts to promote U.S. national security, fight extremists, and advance Middle East peace.

The fiscal year 2011 request for the Peacekeeping Operations Account is \$285 million. PKO programs support ongoing regional peacekeeping missions and are increasing countries' capacities to participate in peacekeeping operations. PKO funds also support defense reform in critical African countries and increased counterterrorism capabilities.

The fiscal year 2011 request for the International Military and Education and Training Account is \$110 million. IMET provides military personnel from allied and friendly nations with valuable training and education on U.S. military practices and standards, including exposure to democratic values, civilian control of the military, and respect for human rights.

The fiscal year 2011 request for the NADR account is \$145 million. Our NADR funds support the removal of land mines and unexploded ordnance, as well as the destruction of excess weapons and unstable ammunition. This helps protect local populations and removes a source of deadly supplies that extremists could use against U.S. forces and our partners. This year's request also reflects the consolidation of three former NADR sub accounts into two, which would provide greater demining and small arms-light weapons projects within the same country program.

The fiscal year 2011 request for the Pakistan Counterinsurgency Capability Fund is \$1.2 billion. Fiscal year 2011 will be the first year the Department of State assumes full management of PCCF. Funds will continue to be targeted at building the capability of Pakistan security forces directly engaged in counterinsurgency efforts in contested areas throughout the North-West Frontier Province and the Federally Administered Tribal Areas.

A more capable Pakistani military will diminish extremist access to safe havens from which attacks on Pakistan and on U.S. and international forces operating in Afghanistan are planned and executed. Additionally, a better trained and equipped Pakistani security force will facilitate efforts to execute our \$7.5 billion 5-year U.S. civilian assistance strategy, which includes efforts to include basic services in areas vulnerable to extremists.

A major difference in the management of PCCF in fiscal year 2011 will be the increased State Department oversight and involvement throughout the execution process, which will ensure that this major assistance program aligns with our broader foreign policy objectives and complements our other foreign assistance programs in Pakistan and the broader region. We are actively working to ensure that the transition of PCCF management from the Defense Department to the State Department is a smooth one.

Managing and implementing these five security assistance programs form a substantial part of the essential partnership between the Departments of State and Defense. In the dynamic security environment we face today funding of the security assistance programs provides our government with the flexible tools needed to advance U.S. National security interests.

Thank you for the opportunity to testify before you this afternoon. I am committed to working with this subcommittee to ensure that these important programs are adequately funded and effectively executed. I look forward to taking your questions.

[The statement of Mr. Shapiro follows:]

Testimony of Andrew J. Shapiro
Assistant Secretary of State for Political-Military Affairs
U.S. House Appropriations Committee,
Subcommittee on State, Foreign Operations, and Related Programs
April 14, 2010

Chairwoman Lowey, Ranking Member Granger, members of the Subcommittee, thank you for the opportunity to appear before you today. I appreciate the opportunity to testify on the ways in which the State Department's security assistance programs contribute to our collective efforts to improve both national and international security.

Since its establishment a half century ago, the Bureau of Political-Military Affairs has served as the State Department's primary link with the Department of Defense. The Bureau's enduring and daily work is representative of the type of cooperation and teamwork that is essential in addressing the evolving security challenges that we and our allies and partners face.

A strong partnership between the State Department and the Department of Defense is critical to addressing the serious international challenges that the United States faces today. Secretaries Clinton and Gates have publicly expressed their commitment to a State-Defense relationship that is complementary, not competitive. We in the Bureau of Political-Military Affairs are working to fulfill that commitment.

The Bureau of Political-Military Affairs has a critical role in providing the Secretary of State a global perspective on political-military issues, which is essential in today's complex and interdependent world. The Bureau plays a significant role in a wide array of political-military issues from Asia to the Middle East to Africa and the Western Hemisphere.

One of the most important responsibilities of the Bureau is the management of security assistance funds, which collectively total \$7.215 billion in the President's FY 2011 budget and which provide important tools to the United States in today's security environment. Given the difficult economic times that many American families face, we are acutely aware of the need to make every dollar entrusted to us by the taxpayers deliver the maximum benefit to our national security.

PM bureau manages security assistance through five accounts: (1) Foreign Military Financing, which provides our partners and allies with grant assistance to purchase U.S. defense articles and services; (2) Peacekeeping Operations, which supports non-UN peacekeeping operations, increases peacekeeping and counterterrorism capabilities, and supports defense sector reform in critical countries in Africa; (3) International Military Education and Training, which provides training and education on a grant basis to foreign military personnel to promote more professional militaries with an appreciation of civilian control of the military, democratic values, and respect for human rights; (4) Nonproliferation, Anti-Terrorism, Demining and Related Programs, which addresses the clearance of landmines and other explosive remnants of war and the destruction and security of illicit, unsecure, and unstable small arms, light weapons, and conventional munitions, and provides assistance to mine victims; (5) and the Pakistan Counterinsurgency Capability Fund, which assists the Government of Pakistan in building and maintaining the capability of its security forces to conduct counterinsurgency operations, and to clear and hold terrain in contested areas throughout the Federally Administered Tribal Areas (FATA) and other areas.

I. Foreign Military Financing (FMF)

The FY 2011 request for the Foreign Military Financing (FMF) account is \$5.47 billion. The request furthers U.S. interests around the world by ensuring that coalition partners and friendly governments are equipped and trained to work toward common security goals and share burdens in joint missions. FMF promotes U.S. national security by contributing to regional and global stability, strengthening military support for democratically-elected governments, and containing transnational threats including terrorism and trafficking in narcotics, weapons, and persons. Increased military capabilities establish and strengthen multilateral coalitions with the United States, and enable friends and allies to be increasingly interoperable with U.S. and other military forces. FMF assistance will also support ongoing efforts to incorporate the most recent NATO members into the organization, support prospective NATO members and coalition partners, and assist critical coalition partners in Afghanistan. The request includes a \$225 million increase in assistance for Israel over the FY 2010 request, which is consistent with the 2007 10-year Memorandum of Understanding between our two countries. In addition, the request supports funding for coalition partners and allies, is consistent with our efforts to promote U.S. national security, fight extremists, and advance Middle East peace.

II. Peacekeeping Operations (PKO)

The FY 2011 request for the Peacekeeping Operations (PKO) account is \$285.95 million. The request is intended to help diminish and resolve conflict, enhance the ability of states to participate in peacekeeping and stability operations, increase the military capabilities of select countries to address counter-terrorism threats, and reform military establishments into professional military forces with respect for the rule of law. The request supports two ongoing regional peacekeeping missions – the African Union Mission in Somalia (AMISOM) and the Multinational Force and Observers (MFO) mission in the Sinai. The request also supports the ability of states to participate in peacekeeping operations through the Global Peace Operations Initiative (GPOI); enhances the ability of states to address counterterrorism threats through the Trans-Sahara Counterterrorism Partnership (TSCTP) and the East Africa Regional Strategic Initiative (EARSII); supports reforms to military forces in the aftermath of conflict into professional military forces with respect for the rule of law, including those in Southern Sudan, Liberia, the Democratic Republic of the Congo, and Somalia; and addresses regional conflict stabilization and border security issues in Africa.

III. International Military Education and Training (IMET)

The FY 2011 request for the International Military Education and Training (IMET) account is \$110 million. IMET is a key component of U.S. security assistance which promotes regional stability and defense capabilities through professional military training and education. Through professional and technical courses and specialized instruction, the program provides military personnel from allied and friendly nations with valuable training and education on U.S. military practices and standards, including exposure to democratic values, civilian control of the military, and respect for internationally recognized standards of human rights. IMET serves as an effective means to strengthen military alliances and international coalitions critical to U.S. national security goals. IMET also helps to develop a common understanding of shared international challenges, including terrorism, and fosters the relationships necessary to counter those challenges in a collaborative manner.

IV. Nonproliferation, Anti-Terrorism, Demining and Related Programs (NADR)

The FY 2011 request for the Nonproliferation, Anti-Terrorism, Demining and Related Programs (NADR) account is \$145.6 million. The request advances peace and security by responding to the threat posed to indigenous populations by landmines and unexploded ordnance, and from excess, loosely secured, or otherwise at-risk small arms, light weapons and ammunition, and Man-portable Air Defense Systems (MANPADS). \$138.6 million is requested to address the clearance of landmines and other explosive remnants of war and the destruction and security of illicit, unsecure, and unstable small arms, light weapons, and conventional munitions. \$7 million is requested for the International Trust Fund for Demining and Mine Victims Assistance (ITF) in Ljubljana, Slovenia. The fund focuses on Southeast Europe and finances the clearance of landmines and unexploded ordnance and provides mine victims assistance in that region.

V. Pakistan Counterinsurgency Capability Fund (PCCF)

The FY 2011 request for the Pakistan Counterinsurgency Capability Fund (PCCF) is \$1.2 billion. FY 2011 will be the first year the Department of State assumes full management of PCCF. Funds will continue to be targeted at building the capability of Pakistan's security forces directly engaged in combat operations and to clear and hold terrain in contested areas throughout the Northwest Frontier Province (NWFP) and Federally Administered Tribal Areas (FATA). A more capable Pakistani military will diminish extremist access to safe havens from which attacks on Pakistan and on United States and international forces operating in Afghanistan are planned and executed. Additionally, a better trained and equipped security force will facilitate efforts to implement our \$7.5 billion, five-year civilian assistance strategy, which includes efforts to improve basic government services in areas vulnerable to extremists. This is the "build" in the clear-hold-build effort of a counterinsurgency campaign.

The FY 2011 PCCF funding will continue to accelerate the development of Pakistan's capacity to secure its borders, deny safe haven to extremists, fight insurgents, and provide security for the indigenous population. The request of \$1.2 billion builds upon the \$400 million provided to DoD in the FY 2009 Supplemental and the \$700 million provided to State in the FY 2009 Supplemental by fully funding the expansion of training into Baluchistan and continuing efforts to expand U.S. efforts to train and equip Pakistan's conventional military forces. The primary lines of operation continue to be: 1) training and equipping Pakistan's security forces with a focus on the Pakistan Army, the Special Services Group, Pakistan Army Aviation, and other enabling forces; 2) training and equipping the

paramilitary Frontier Scouts and; 3) providing training for humanitarian relief in post-combat operations. Capability focus areas include: command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR); air mobility; night operations; military intelligence; counter-improvised explosive devices; close air support; civil affairs and humanitarian assistance; and forward critical medical care.

The \$1.2 billion PCCF program will formally transition from being a DoD managed program to a State managed program in FY 2011. In the State Department, we are continuing to develop our oversight and management procedures for the PCCF with the goal of preserving the flexibility and agility needed to support the requirements in the field while ensuring that this is truly a State Department managed program. Both State and DoD are committed to the successful implementation of the PCCF as a State Department managed program in FY 2011 with the shared goal of a seamless transition that has no discernible impact on U.S. implementers and Pakistani forces in the field. A major difference in the management of PCCF will be increased State Department oversight and involvement throughout the execution process, which will ensure that this major assistance program aligns with our broader foreign policy objectives in Pakistan and complements our other foreign assistance programs in Pakistan and the broader region.

VI. Conclusion

In conclusion, we in the Bureau of Political-Military Affairs take very seriously our responsibilities in managing the security assistance funds with which we are entrusted.

Managing and implementing the five security assistance programs I have outlined form a substantial part of the essential partnership between the Departments of State and Defense. In the dynamic security environment we face today, with its constantly evolving challenges and opportunities, funding of these security assistance programs provides our government with the necessary and flexible tools to advance U.S. national security interests around the globe.

Thank you for the opportunity to discuss these important programs with you this afternoon. I am committed to working with this subcommittee to ensure that these important programs are adequately funded and effectively executed. I look forward to taking your questions.



Biography



Andrew J. Shapiro

Assistant Secretary

BUREAU OF POLITICAL-MILITARY AFFAIRS

Term of Appointment: 06/22/2009 to present

Andrew J. Shapiro was sworn in as Assistant Secretary of State for Political-Military Affairs on June 22, 2009. Mr. Shapiro previously served as Senior Advisor to Secretary of State Hillary Rodham Clinton. Prior to joining the State Department with the Secretary, he served from 2001 to 2009 as Senator Clinton's Senior Defense and Foreign Policy Advisor. In this position, he was

Senator Clinton's primary policy advisor on national security issues including Senator Clinton's work on the Senate Armed Services Committee. Mr. Shapiro also traveled with Senator Clinton extensively overseas, joining her on visits to the Iraq and Afghanistan areas of operation. He also served as a member of the Obama-Biden Department of Defense Agency Review Team before shifting to Secretary of State Clinton's confirmation and transition team once she was officially named.

Previously, Mr. Shapiro was counsel to the Justice Department's International Competition Policy Advisory Committee, and was an associate at the Washington, DC law firm Covington & Burling. He received a B.A. cum laude with honors distinction in Diplomatic History from the University of Pennsylvania and a joint law/master's in international affairs degree from Columbia University where he was a Harlan Fiske Stone Scholar. Prior to attending law and graduate school, he worked as a senior research assistant at The Washington Institute for Near East Policy. Andrew Shapiro is a recipient of the Gold Star Wives of America Appreciation Award and the National Guard Association's Patrick Henry Award. He is a member of the Council of Foreign Relations and the International Institute of Strategic Studies.

Mrs. LOWEY. Mr. Ambassador.

OPENING STATEMENT OF AMBASSADOR BENJAMIN

Ambassador BENJAMIN. Members of the subcommittee, thank you very much for the opportunity to appear before you today. I particularly appreciate the opportunity to testify together with my colleagues from the Bureaus of Political-Military Affairs and International Narcotics and Law Enforcement on President Obama's 2011 budget request.

The President has requested \$294 million for fiscal year 2011 in nonproliferation, antiterrorism, demining, and related program funds for the Department's Office of the Coordinator for Counterterrorism. This budget reflects our three priorities: countering violent extremism, CT capacity building, and multilateral engagement. Underlying all of these, and not always measurable in dollars, is a renewed and vigorous effort to ensure that diplomacy plays a central role in our counterterrorism efforts.

To successfully develop and implement CT programs, we must understand the dynamics of the local conditions that give rise to extremism. Every community, whether long-rooted or part of a new diaspora, possesses a unique political, economic, and social landscape. For this reason, one-size-fits-all CT programs are likely to have limited appeal and utility. Instead, our efforts must be tailored to fit the local context. Thus, it is critically important that our embassies, which are on the front lines of our counterterrorism efforts, play a key role in designing CT programs. They can best identify credible local partners and carry messages of moderation and successfully implement CT programs.

Let me now discuss each of our key programs. First, countering violent extremism. Curtailing the influence of militants is critical to enhancing our Nation's security. The primary goal is to stop those most at risk of radicalization from becoming terrorists. Its tools are noncoercive and include social programs, counter-ideology initiatives, and working with civil society to delegitimize the al Qaeda narrative and, where possible, provide alternative narratives. This involves capacity building, outreach to civil society organizations, supporting mainstream voices, and educational development as much as it does direct messaging. It involves working through host governments and NGOs to engage with clerics and other credible influential voices.

We intend to use CVE funding to focus on hotspots of radicalization and recruitment. We will work with embassies to develop locally tailored programs to counter the factors driving at-risk populations towards violence. In many cases, S/CT will be implementing these programs and coordinating them through existing offices, including the Under Secretary of State for Public Diplomacy and Public Affairs, the State Department's Special Representative to Muslim Communities, and USAID, to avoid duplication and to ensure that we focus on the right areas.

One CVE program already in its third year is the Ambassador's Fund for Counterterrorism, which allows posts to identify local partners and submit proposals to secure funding of up to \$100,000 to counter extremism. The Ambassadors' Fund was previously funded under NADR/ATA, but has moved to NADR/CVE in 2011.

Our fiscal year 2011 appropriations request has revised NADR language that broadens the definition of antiterrorism to include countering radicalization and violent extremism. This will ensure that we have the right authorities in place to successfully execute our CVE mission.

TIP/PISCES. The Terrorist Interdiction Program seeks to constrain terrorist mobility by helping countries enhance their port of entry security capabilities. TIP provides participating countries with a computerized stop list system, known as PISCES, and provides PISCES hardware and software at selected ports of entries in consultation with host governments.

In fiscal year 2011 we will use \$33.65 million to provide significant biometric software and hardware enhancements that will assist 17 partner nations to better identify and track individuals entering and departing their land, sea, and air ports of entry. Fiscal year 2011 biometric upgrades are planned for Cambodia, Djibouti, Ethiopia, Ivory Coast, Kosovo, Macedonia, Thailand, Uganda, and Zambia.

Antiterrorism Assistance. ATA continues to be our flagship counterterrorism capacity building program, and our partner nations have registered several concrete successes over the last year. S/CT and INL have increased cooperation on law enforcement with joint assessments in high priority countries such as the Philippines. Under our fiscal year 2011 request, India's ATA bilateral budget would almost double to \$4.5 million to meet the increasing political will on the part of the Indian Government, which has requested more and higher level training in the aftermath of the Mumbai attack.

Counterterrorism Finance Program. The CTF programs are aimed at reinforcing partner countries' financial, regulatory, judicial and law enforcement institutions to detect, disrupt, and dismantle terrorist finance networks. With additional funding, we will expand our efforts not only focusing on key countries such as Afghanistan, Pakistan, and Iraq, but sources further afield that fund terrorists in these countries. We are also looking to increase in such important threat areas as Yemen and North Africa.

Counterterrorism Engagement. Increased funding will help the United States support the efforts of multilateral organizations to support more effective policies and programs. We place great importance on engaging with the international community to combat terrorism, especially through the U.N. and regional organizations such as the OSCE, the OAS, and APEC. We plan to support U.N. Bodies, including the Counterterrorism Committee Executive Directorate, the U.N. Office of Drugs and Crime, and the wider Counterterrorism Implementation Task Force. We will use \$5 million in CTE funds to increase support for the Regional Strategic Initiative.

The Regional Strategic Initiative. Denying terrorists safe haven is a key element of U.S. counterterrorism strategy. Through the RSI we work with ambassadors and interagency representatives in key terrorist theaters of operation to assess the threat and devise collaborative strategies, using all the tools of statecraft to help host nations understand the threat and strengthen their political will and capacity to counter it. The RSI promotes cooperation between our counterterrorism partners; for example, between Malaysia, In-

onesia, and the Philippines, as they confront terrorism transit across the Sulawesi Sea, or among Mauritania, Algeria, Morocco, Chad, and Mali to counter al Qaeda in the Islamic Maghreb.

Let me just say in closing that we take our responsibility for managing the more than \$294 million in security assistance funds requested for fiscal year 2011 very seriously. In the dynamic environment we face today, funding these programs provides our government with the necessary and flexible tools to advance U.S. national security interests around the globe.

I want to thank you for the time and the opportunity to appear before you today to discuss these programs, and I look forward to your questions.

[The statement of Ambassador Benjamin follows:]

STATEMENT FOR THE RECORD
AMBASSADOR-AT-LARGE FOR COUNTERTERRORISM
DANIEL BENJAMIN
U.S. HOUSE APPROPRIATIONS COMMITTEE
SUBCOMMITTEE ON STATE, FOREIGN OPERATIONS, AND
RELATED PROGRAMS

FISCAL YEAR 2011 BUDGET REQUEST FOR
S/CT ASSISTANCE PROGRAMS
APRIL 14, 2010
1:30 PM

Chairwoman Lowey, Ranking Member Granger, members of the Subcommittee, thank you for the opportunity to appear before you today.

I appreciate the opportunity to testify, along with my colleagues from State Department's Political-Military Affairs Bureau and the International Narcotics and Law Enforcement Affairs Bureau, on how President Obama's Fiscal Year 2011 budget request for assistance programs will contribute to our collective efforts to improve both national and international security, especially with regard to counterterrorism. As the State Department's Coordinator for Counterterrorism (S/CT), I am charged with coordinating the terrorism-related assistance the U.S. government provides to foreign countries.

My office coordinates U.S. government international counterterrorism policy. This includes building the political will and capacity of foreign partners so

they can identify, interdict, and defeat terrorists. In order to achieve this end, our work includes helping partner nations develop capacities in law enforcement, border control, and financial regulation. Within the U.S. government, we have many partners both inside and outside the State Department, in fulfilling our mission to forge partnerships with foreign governments, non-state actors and multilateral organizations, to advance the counterterrorism objectives and national security of the United States. The Political-Military Affairs (PM) Bureau and the International Narcotics and Law Enforcement Affairs (INL) Bureau are two of the key State Department's bureaus with which we collaborate closely in this effort.

President Obama has requested \$294,103,000 for Fiscal Year 2011 in Nonproliferation, Anti-terrorism, Demining and Related Programs (NADR) funds for State Department's Office of the Coordinator for Counterterrorism. This request includes \$15,000,000 for the new Countering Violent Extremism (CVE) program; \$43,050,000 for the Terrorist Interdiction Program/Personal Identification Secure Comparison and Evaluation System (TIP/PISCES) program; \$205,103,000 for the Antiterrorism Assistance (ATA) program; \$20,950,000 for the Counterterrorism Finance Training (CTF) program; and \$10,000,000 for the NADR Counterterrorism Engagement (CTE) program. Funding a new CVE

program has required rebalancing the other NADR accounts of ATA, TIP/PISCES, CTF, and CTE.

The Fiscal Year 2011 budget request also reflects my three priorities: countering violent extremism (a new program), capacity building through our ATA, TIP/PISCES, and CTF programs, and multilateral engagement through our CTE program. Underlying all of these, and not always measurable in dollars, is a renewed and vigorous effort to ensure that diplomacy plays a central role in our counterterrorism (CT) efforts, as we emphasize the mutual interests that bind us together with our partners in our CT efforts.

To successfully develop and implement effective CT programs, we must understand the dynamics of the local conditions that give rise to extremism. In terms of countering violent extremism, every community, whether long-rooted or part of a new diaspora, possesses a unique political, economic, and social landscape. For this reason, one-size-fits-all CT programs are likely to have limited appeal and utility. Instead, our efforts must be tailored to fit the particular context. Thus, it is critically important that our Embassies, which are on the front lines of our counterterrorism efforts, play a key role in designing counterterrorism programs. They can best identify credible local partners who can carry moderating messages and successfully implement counterterrorism programs. For this reason,

I, my five deputies, and our staff have travelled extensively, especially to the Middle East, South Asia, Southeast Asia, Africa, and Europe. We have met with numerous officials from State, Defense and other departments as well as host governments and other organizations to discuss and support Chief of Mission-led efforts on counterterrorism and explore ways to further strengthen these initiatives.

Let me turn to a brief discussion of each of our key programs, according to the three priorities I have already laid out.

COUNTERING VIOLENT EXTREMISM (CVE) PROGRAM

The Fiscal Year 2011 request for the NADR Countering Violent Extremism (CVE) program is \$15 million. This is a newly created, dedicated program that goes beyond the tactical approaches to counterterrorism developed over the past nine years. It seeks to reduce the production of terrorists by using multiple tools to create alternatives for potential militants to choose non-violent paths.

In the past eight years, the United States has made great strides in what might be called tactical counterterrorism –disrupting terrorist cells and operations. But an effective counterterrorism strategy must go beyond efforts to thwart those who seek to harm the United States and its citizens, allies, and interests. Military

power, intelligence operations, and law enforcement efforts alone will not solve the long-term challenge the United States faces – the threat of violent extremism. As President Obama succinctly put it, “A campaign against extremism will not succeed with bullets or bombs alone.”

Curtailing the influence of militants is critical to enhancing our nation’s security. The primary goal of countering violent extremism is to stop those most at risk of radicalization from becoming terrorists. Its tools are non-coercive and include social programs, counter-ideology initiatives, and working with civil society to delegitimize the al-Qa’ida narrative and, where possible, provide positive alternative narratives. Because a variety of social and political factors can affect how people respond to al-Qa’ida, we are working from various angles to discredit their arguments and reduce their persuasiveness. Effectively countering the al-Qa’ida narrative involves capacity-building, outreach to civil society organizations, and educational development, as much as it does direct messaging. It involves working through host governments and non-governmental organizations to engage with clerics and other influential voices with credibility in local communities.

In Fiscal Year 2011, we intend to use countering violent extremism (CVE) funding to focus on hot-spots of radicalization and recruitment, working with

embassies to develop locally-tailored programs to counter the factors driving at-risk populations toward violence. In many cases, S/CT will implement these programs through existing offices and infrastructures including the Under Secretary of State for Public Diplomacy and Public Affairs, the State Department Special Representative to Muslim Communities, and the U.S. Agency for International Development (USAID) to make sure that efforts to engage civil society and counter radicalizing narratives to avoid duplication and to collectively focus in the right areas. The Office of the Coordinator for Counterterrorism and the International Narcotics and Law Enforcement Affairs Bureau also have begun to address transparency and rule of law challenges on issues that feed the extremist narrative.

Because I consider this mission vital, one of the first things I did after being sworn in as coordinator was to start developing a CVE team, something that previously had not been a part of the Office of the Coordinator for Counterterrorism. We now have a six-person unit responsible for CVE programs.

Last fall my office convened a one-day interagency summit to examine U.S. government efforts in countering violent extremism, identify programmatic shortcomings, and make recommendations for creating a sustainable strategy going forward. The Summit brought together senior participants from the National

Security Council (NSC), the National Counterterrorism Center (NCTC), and the U.S. Agency for International Development (USAID), intelligence agencies, and the Departments of State, Defense, Homeland Security, and Justice. All were in agreement that our programs are often more effective when informed by local knowledge and implemented by host nations, non-governmental organizations, and local partners.

We are working hard to develop a variety of CVE programs. One that is already in its third year is the Ambassadors' Fund for Counterterrorism, previously funded under NADR/ATA but moved to NADR/CVE in Fiscal Year 2011. The Ambassadors' Fund allows Posts to identify local partners and submit proposals to secure funding up to \$100,000 per project for local efforts to counter extremism. The Ambassadors' Fund is an example of a locally-targeted, field-driven program that marries the tools of soft power and counterterrorism assistance to help combat extremism. Our Ambassadors consistently express their appreciation for the program.

We also have an excellent relationship with the Department of Defense (DoD) on CVE. We are extremely grateful to Secretary Gates for his leadership and emphasis on the need to foster a stronger partnership between the Departments of Defense and State. Our cooperation with DoD is paying off as we explore ways

to collaborate and innovate new CVE programming. Together we are learning how to complement each other's strengths and efforts in the field, and determine which CVE efforts are best done by the military and which are best handled on the civilian side. A number of offices in DoD and the Combatant Commands that fund CVE projects and research have expressed a desire to collaborate with us on new programs and we have had fruitful discussions with the U.S. Special Operations Command (SOCOM) about how our offices can work in concert on funding good ideas and program delivery.

We need to ensure that we have the right authorities in place to successfully execute our CVE mission. Our FY 2011 appropriations request has revised NADR language that broadens the definition of antiterrorism to include countering radicalization and violent extremism.

CAPACITY BUILDING

TERRORIST INTERDICTION PROGRAM/ PERSONAL IDENTIFICATION SECURE COMPARISON AND EVALUATION SYSTEM (TIP/PISCES) PROGRAM

The Fiscal Year 2011 Nonproliferation, Anti-Terrorism, Demining and Related Programs (NADR) request for the TIP/PISCES program is \$43.05 million.

The Terrorist Interdiction Program (TIP) seeks to constrain terrorist mobility globally by helping countries at risk of terrorist activity to enhance their border security capabilities. TIP provides participating countries with a computerized stop-list system known as the Personal Identification Secure Comparison and Evaluation System (PISCES). TIP installs PISCES hardware and software at selected ports of entry in consultation with host governments, usually including international airports and major border crossings.

In Fiscal Year 2011, we will use \$33.65 million to continue upgrade deployments begun in Fiscal Year 2010, in order to provide significant biometric software and hardware enhancements that will assist 17 partner nations to better identify and track individuals entering and departing their land, sea, and air ports of entry. Current TIP/PISCES host nations stop-list capabilities are vulnerable to efforts by terrorists to disguise identity and avoid identity confirmation, and biometrics enhancements will reduce this vulnerability. In Fiscal Year 2011 biometric upgrades are planned for: Cambodia, Djibouti, Ethiopia, Ivory Coast, Kosovo, Macedonia, Thailand, Uganda, and Zambia.

Three TIP/PISCES programs illustrate the overall program:

- In Kenya, within the last two weeks, a pilot program for PISCES biometric upgrades has been launched at Jomo Kenyatta International Airport in Nairobi. Initial testing has shown positive results for 10-print fingerprint capture. Assuming satisfactory pilot results by the end of April, we plan to begin deployment of full biometric upgrades in Kenya and other key countries. We are pleased that development of PISCES biometric upgrades has proceeded smoothly and on schedule.
- In Pakistan, the number of ports of entry using PISCES has expanded to 26, including 15 airports, five land borders, four seaports, and two train stations. Pakistan will be among the first few nations implementing biometrics upgrades. As in all countries using the PISCES system, Pakistani officials are able to document the arrival and departure of international travelers and identify suspect travelers against a host-nation developed stop-list.
- In Yemen, the number of ports of entry using the PISCES system has expanded to 24, including six airports, six land borders, and 12 seaports. The original PISCES software installed in Yemen has been upgraded in the last six months in preparation for further biometrics upgrades.

ANTITERRORISM ASSISTANCE (ATA) PROGRAM

The Fiscal Year 2011 Nonproliferation, Anti-Terrorism, Demining and Related Programs (NADR) request for the Antiterrorism Assistance (ATA) program is \$205.1 million.

ATA continues to be our flagship counterterrorism law enforcement capacity-building program and our partner nations have registered several concrete successes over the last year. I would like to highlight a few of the initiatives and developments we have planned for the coming fiscal year.

In the Philippines, we hope to increase funding by 80 percent to almost \$9 million in order to ramp up efforts to transition counterterrorism (CT) training from the military to civilian law enforcement in the south. This transition is crucial to consolidating the gains made during the last few years while firmly establishing civilian rule of law.

In Afghanistan, we are requesting a 25 percent increase to \$23 million in the ATA bilateral budget in order to complete the hand-off of President Karzai's protective detail to the Government of Afghanistan and also to extend our training program to Detachment 10 (D-10), which provides protection for government facilities and senior officials. This will build on our successes in protective detail

training and support efforts to directly secure government officials and facilities by focusing our training on an organization with the capacity to absorb it.

Under our Fiscal Year 2011 request, India's ATA bilateral budget would almost double to \$4.5 million in order to meet the increasing needs and increasing willingness to cooperate on the part of the Indian government, which recently has requested more and higher-level training in the aftermath of the Mumbai attack.

The State Department Coordinator for Counterterrorism and the International Narcotics and Law Enforcement Affairs (INL) Bureau have increased cooperation on law enforcement with joint assessments between ATA and INL in high priority countries such as the Philippines. More broadly, we are working with INL and PM and other bureaus that manage security sector assistance programs to ensure greater unity and strengthen our efforts to build our partners' capacity.

COUNTERTERRORISM FINANCE TRAINING (CTF) PROGRAM

The FY 2011 Nonproliferation, Anti-Terrorism, Demining and Related Programs (NADR) request for the Counterterrorism Finance Training (CTF) Program is \$20.95 million.

The CTF mission is to develop and provide counterterrorism finance training and technical assistance to countries most critical to terrorist financing. These CTF programs are aimed at reinforcing partner countries' financial regulatory, judicial, and law enforcement institutions to detect, disrupt, and dismantle terrorist financing networks. The State Department Coordinator for Counterterrorism is charged with directing, managing, and coordinating all U.S. government agencies' efforts to develop and provide these CTF programs. The State Department Coordinator for Counterterrorism and the International Narcotics and Law Enforcement Affairs Bureau co-chair the State Department-led interagency Terrorist Finance Working Group (TFWG) to ensure harmonization on CTF capacity-building efforts. The TFWG meets biweekly, receives intelligence updates, schedules assessment trips, reviews assessment reports, evaluates training proposals, and assigns resources for training.

Along with the Administration, Congress has realized that stopping these illicit flows are a key part of our overall counterterrorism strategy. We have had importance successes. Without going into classified material, our capacity-building programs have provided the skills and knowledge to our foreign partners that have resulted in the capture of terrorist financiers. With the additional funding, we will be able to expand our efforts, not only focusing on key countries such as Afghanistan, Pakistan, and Iraq, but sources further afield that fund the terrorists in

these countries. Additionally, we are looking to increasingly important threat areas, such as Yemen and North Africa, and how we might address their sources of funding.

COUNTERTERRORISM ENGAGEMENT (CTE) PROGRAM

The Fiscal Year 2011 Nonproliferation, Anti-Terrorism, Demining and Related Programs (NADR) request for the Counterterrorism Engagement (CTE) program is \$10 million.

Counterterrorism Engagement (CTE) aims to build political will among foreign government officials and civil societies, and support the efforts of multilateral organizations to promote more effective policies and programs.

Working with other government agencies and with nongovernmental organizations, the Office of the Coordinator for Counterterrorism uses CTE to support initiatives and training including through the United Nations and regional organizations. Such multilateral engagement allows us to leverage our contributions with those of other countries, thus achieving greater international buy-in, more efficiencies, and more long-lasting results.

We will use \$5 million in CTE funds in FY2011 to improve U.S. multilateral engagement. The United States places a great importance on engaging with the international community to combat terrorism, especially through multilateral organizations including the United Nations and regional organizations such as the Organization for Security and Co-operation in Europe (OSCE), the Organization of American States (OAS), and the Asia-Pacific Economic Cooperation (APEC). Major focus areas of this work involves both setting norms that member countries can be held to, and carrying out capacity-building work through organizations that have the credibility of consensus behind them. We plan to support United Nations bodies including Counter-Terrorism Committee Executive Directorate (CTED), United Nations Office on Drugs and Crime (UNODC), and the wider Counter-Terrorism Implementation Task Force which can each make important contributions to this effort.

We've worked closely with the Canadian Presidency of the G8's Counterterrorism Action Group (CTAG) to reform its focus on specific regions where there are clear threats. For example, our specific engagement with the CTAG in priority countries and regions, most notably in the Sahel, will strengthen capacity building efforts. Our continued engagement with regional bodies, including the OSCE, OAS's Inter-American Committee on Terrorism (CICTE),

and APEC offers opportunities to develop new and strengthen existing regional mechanisms aimed at helping countries implement international standards to combat terrorism and to increase our CT cooperation.

This increased funding will help the United States build political will among foreign government officials and civil societies, and support the efforts of multilateral organizations to promote more effective policies and programs.

We will also use \$5 million in CTE funds to increase support for the Regional Strategic Initiative (RSI).

THE REGIONAL STRATEGIC INITIATIVE (RSI)

Terrorists operate without regard to national boundaries. To effectively counter terrorists, we are working to strengthen our regional and transnational partnerships and to increasingly operate in a regional context. Denying safe haven plays a major role in undermining terrorists' capacity to operate effectively and forms a key element of U.S. counterterrorism strategy. Through the Regional Strategic Initiative (RSI), we work with Ambassadors and interagency representatives in key terrorist theaters of operation to assess the threat and devise collaborative strategies, action plans, and policy recommendations. To implement this strategy, U.S. Ambassadors lead interagency Country Teams that recommend

strategies using all instruments of U.S. statecraft to help host nations understand the threat, and strengthen their political will and capacity to counter it.

The RSI promotes cooperation between our counterterrorism partners, for example, between Malaysia, Indonesia, and the Philippines as they confront terrorist transit across the Sulawesi Sea; or among Mauritania, Algeria, Morocco, Niger, Chad, and Mali, to counter al-Qa'ida in the Islamic Maghreb (AQIM).

The RSI is funded primarily from NADR, ATA, CTE, and CTF funds, but is also funded from various other budget programs. For example, as mentioned by Assistant Secretary of State for Political-Military Affairs Shapiro, his bureau has requested Peacekeeping Operations (PKO) funds for the Trans-Sahara Counterterrorism Partnership (TSCTP) and the East Africa Regional Strategic Initiative (EARSi). These important RSIs enhance the ability of states to address counterterrorism threats through regional coordination and cooperation.

These two RSIs, along with the six others, allow us to address transnational threats through regional programs, as agreed to by Ambassadors in the field, and according to a common set of CT objectives for each region. Having RSI funds under multiple accounts allows us to execute programs with a variety of assistance tools to address the most pressing threats, with leadership from the field. RSI

funds are allocated from our global line in the year of execution, according to a competitive proposal process, and managed and overseen by our RSI regional officers in the field.

CONCLUSION

We in the Office of the Coordinator for Counterterrorism, take our responsibilities in managing the more than \$294 million in security assistance funds requested for Fiscal Year 2011 very seriously.

Managing and implementing the five security assistance programs I have outlined form a substantial part of the essential partnership among the Departments of State, Defense, Homeland Security, Justice, Treasury, and the intelligence community. In the dynamic environment we face today, with its constantly changing set of challenges and opportunities, funding of these counterterrorism assistance programs provides our government with the necessary and flexible tools to advance U.S. national security interests around the globe.

There are two more points I'd like to make. First, as we pursue our CVE work and counterterrorism more broadly, it is vital that we honor and exemplify our values in this struggle. As President Obama has said from the outset, there should be no tradeoff between our security and our values. Indeed, in light of what

we know about radicalization, it is clear that navigating by our values is an essential, indeed indispensable, part of a successful counterterrorism effort. Thus, we have forbidden torture, and are developing a more systematic method of dealing with detainees. All of these, over the long term, will help undermine terrorist claims about the nature of the United States.

Secondly, there is reason for optimism about our ability to make progress on counterterrorism. Within the foreign policy community and the senior political leadership, there is a broad, shared understanding of the vital need to get this right. I am confident that we can succeed at this strategic level of counterterrorism as effectively as we have in the tactical realm, where we have made genuinely impressive strides.

Thank you for the time and opportunity to appear before you today to discuss these programs. With that, I look forward to taking your questions.



Biography



Daniel Benjamin

Coordinator for Counterterrorism

Term of Appointment: 05/28/2009 to present

Daniel Benjamin was sworn in as Coordinator for Counterterrorism at the Department of State with the rank of Ambassador-at-Large on May 28, 2009. Prior to his appointment, Ambassador Benjamin was Director of the Center on the United States and Europe and a Senior Fellow in Foreign Policy Studies at the Brookings Institution from December 2006 to May 2009. He spent six years as a senior fellow in the International Security Program at the Center for Strategic and International Studies. From 1994 to 1999, Mr. Benjamin served on the National Security Council staff. In 1998-1999, he was director for counterterrorism in the Office of Transnational Threats. In 1994-1997, he served as foreign policy speechwriter and special assistant to President Clinton. Before entering the government, Mr. Benjamin was a foreign correspondent for TIME Magazine and The Wall Street Journal.

Daniel Benjamin has co-written two books. *The Age of Sacred Terror* was published by Random House in 2002 and documents the rise of religiously motivated terrorism and American efforts to combat it. *The Age of Sacred Terror* was named a New York Times Notable Book of 2002 and was given the Arthur Ross Book Award of the Council on Foreign Relations. *The Next Attack: The Failure of the War on Terror and a Strategy for Getting it Right*, was published by Holt/Times Books in 2005 and named a Washington Post "Best Book" of 2005. He also edited *America and the World in the Age of Terror: A New Landscape of International Relations* (CSIS, 2005). He has published numerous articles in The New York Times, Washington Post, Slate, TIME Magazine, the Los Angeles Times, and other publications.

Mr. Benjamin holds degrees from Harvard and Oxford, where he was a Marshall Scholar.

Mrs. LOWEY. Thank you very much. I know we are expecting votes shortly. I understand Ms. McCollum may not be able to come back after votes. So why don't you begin.

Ms. MCCOLLUM. Thank you, Madam Chair. I have two questions that do kind of the same theme—have some of the same things, so I will ask them together, and then I have a third one. Given the increasing violence that is in the news about the drug trafficking on the southern U.S. border in Mexico and Central America, I am curious as to why the fiscal year 2011 funding request for International Narcotics and Law Enforcement Account shows a decrease of \$16.4 million for the Western Hemisphere.

Along with this, Assistant Secretary Johnson, in your testimony you explain that drug traffickers adapt to our efforts to halt drug activities; for example, by shifting their operations to territorial waters and countries off of Central America when pressure on criminal operations in Mexico really started to feel the heat.

So my question is whether the funding that this subcommittee provides you is flexible enough to cross accounts and agencies to enable that our government is adapting quickly when the criminals change their operations. So if you could answer that. And then if there is time remaining, I have a brief question on Sharia law.

Mr. JOHNSON. Thank you very much for your questions. With respect to the funding levels and the changes, there are two broad reasons for that. First, in the case of the Andes, and in particular in Colombia, we have been engaged with the Colombians over the course of the last 2 to 3 years, negotiating with them what we refer to as a nationalization program, where they are taking over more and more of the responsibility for particularly the maintenance and operation of aircraft associated with the Colombian army. So the numeral goes down somewhat because of that this year, as it did the year before and the year before that.

The other larger and observable piece of this is that the numeral for Mexico has declined a little bit this year as well. The reason for that is that we have largely concluded the request for funding that we need to assist the Mexicans to buy equipment and aircraft, which are by their nature quite expensive. And we are moving much more into the institution building side of things—training their police, training their judiciary, training their prosecutors, providing them with additional techniques. While there continues to be some equipment purchases associated with this budget, the proportion of that is declining over time and there is more focus on institution building. Therefore, the numeral goes down somewhat during the course of this year.

The commitment, the activity, the engagement of both the individuals of the Department of State as well as the broader inter-agency though will continue to increase during this course of time, and you will see more people on the ground working with their Mexican and Central American counterparts during this period.

Ms. MCCOLLUM. And the flexibility is there?

Mr. JOHNSON. I think working with the committee and the committee staff we do have the flexibilities that we need to move things back and forth. Should we run into an obstacle, I am not very shy, and we will bring it to your attention and ask for some sort of relief and see if we can work out some way to move moneys

if we need to. But as we have seen needs and as they have developed during the course of the implementation of this, we have made some changes in cooperation with the committee and committee staff.

Ms. MCCOLLUM. Thank you. Madam Chair, I have a concern because I don't feel I have enough information. I have been to Afghanistan and I met with some of the judicial people that were working there. And scaling up, they don't have attorneys. It is a big country with a lot of challenges. So I know that there has been thoughtful conversations about Sharia law being used. But I want to make sure that they are thoughtful, that girls aren't being forced into marriage, being sold, that women who have been raped aren't imprisoned and that there is accountability and transparency if we are using that and that there is some training that goes forward, because other than that we have money supporting a judicial system that I think most men and women in this country and in the free world would find very questionable. If you could tell me what is going on.

AFGHANISTAN

Mr. JOHNSON. We have a significant program to help develop the justice system in Afghanistan. I am presuming that is what you are referring to. And working with the Afghans there, we wish to expand that with this budget. It has been not totally but significantly a cobble-centric trick effort over the course of the last several years, helping the central government develop its institutions, training prosecutors, defense bar, judges for that. It is based on a system of law which includes Sharia but is not exclusively so. And it is really I think some of the popular ideas that you were talking about that are not encompassed in the system of law that we are supporting.

One of the other issues that we are trying to come to grips with and we have brought into play the expertise at the U.S. Institute for Peace that is working with us is how do you combine what they describe as traditional systems of justice with the formal system. By that, they don't mean what we normally mean I think pejoratively by Sharia, but actually what they mean there is how communities get together and resolve disputes related to activities within that community. Shuras. How people work together and how you merge these systems so that they actually work smoothly and that they do not do exactly as you say, they do not become some sort of mechanism for violating human rights.

Ms. MCCOLLUM. Madam Chair, thank you for the courtesy, and I am a supporter of traditional justice. I work with many native communities here that have circles in that. But I think we need to make sure that there are the oversight mechanisms in place on this issue.

Thank you, Madam Chair, for your courtesy.

Mrs. LOWEY. Thank you. Ms. Granger.

MERIDA INITIATIVE

Ms. GRANGER. Thank you. In December of 2009, GAO issued a preliminary report stating that of the \$1.3 billion in Merida funds appropriated by this subcommittee only \$830 million had been obli-

gated and only \$26 million of the funds have been spent. In response to that report, the State Department's response indicated that the use of expenditures was not a good metric to determine success of the Merida Initiative. My question is: If that is true, then what is the most accurate metrics and what metrics is the State Department using and how are you measuring up to those metrics?

Mr. JOHNSON. Thank you. I think usually the most accurate way to measure whether or not we are performing well or whether we are moving money out the door, if you will, is through what funds have been obligated. That is not necessarily an ironclad way to do it, because it can both over report and under report. But it is much more accurate than "expended." For example, the helicopters that we are providing to the Mexican police have been manufactured. Sikorsky has finished their work. They have delivered them to the army command. They are now undergoing the modifications that the Mexicans have specifically requested for them. I haven't paid a penny for those yet. So there is no expended funds for those even though Sikorsky has already completed its work.

Under the metric that obligated, we have obligated almost all of the supplementary appropriations for fiscal year 2008 and about half for the supplementary appropriation for fiscal year 2009. The base amounts are being invested more slowly because of the nature of some of the programs that they are investing in, more in human resources than anything else. But we are struggling with ways to try to push that along more quickly as well. We want this to happen as fast as it possibly can. We have no interest in being bureaucratic, if you will, about this. But some of the issues that we have to deal with; for example, we have delivered a fair amount of non-intrusive inspection equipment, but now I am struggling with how to deal with a contract protest concerning that. I have to work, of course, within the law and give contractors in the United States and people who work here adequate opportunity to compete.

So we are working through some of those things but it is our desire, it is our aim to move this as quickly as we possibly can.

Ms. GRANGER. I am glad you mentioned the helicopters because Chairman Lowey and I were in Mexico meeting with President Calderon in February 2009, and at that time there were five helicopters that we had appropriated funding for and they hadn't been delivered. As we were there at that meeting with this wonderful BlackBerry I can say, Where are those helicopters and why aren't they on the ground. There was a huge push by some very senior people to get those helicopters that were ready; that they confirmed yes, they are on the runway, but they are sitting there because some paper hasn't been signed.

My report and continuing this has not been good. And there is a huge bureaucracy. And the bureaucracy involves the Department of State and DoD in getting that equipment and what is needed there, as I said, while the house is on fire. And it is on fire. Beheadings are occurring.

So I hear what you are saying. That is certainly not the information that my office has or I have on this way to get this on the ground. I would very much appreciate your participation in a meeting with DoD and for us to go through this and see what is hap-

pening all at the table at the same time because this situation escalates. The news coming out daily is astounding. What we want is our neighbor to be safe and secure because it makes us safe and secure, helps us be safe and secure, but I would very much appreciate, if I called a meeting like that, for you to participate.

Mr. JOHNSON. Absolutely. Juarez holds a special place for me. I started my diplomatic career there. We want to help in every way we can, and we are concentrating our work there right now. We are pushing this every way we know how.

Ms. GRANGER. Good. Thank you very much.

Mrs. LOWEY. Thank you. Ambassador Benjamin, you had stated I believe in your testimony that on any given day al Qaeda remains the foremost security threat the Nation faces. And our primary counterterrorism goal remains to disrupt, dismantle, and defeat al Qaeda and its extremist allies. In what ways does the fiscal year 2011 request reflect the intelligence community's January 2010 assessment that al Qaeda-affiliated threats have grown and dispersed to multiple regions of the world, and how are the counterterrorism programs at DoD and State Department different? I am not sure if I can appropriately ask you, but you can speak to this room. And how do you interface with our current intelligence and is it providing you relevant information? If you can't answer the last question, we will just leave it.

Ambassador BENJAMIN. Let me take a run at all of those questions. I certainly stand by my remark from late December, and I think I have repeated it on any number of occasions. I hope that as we have put together this budget request that it reflects the dynamic nature of the threat and will give us the flexibility to direct our programs to deal with the threat circumstances we face all around the world.

We have, for example, in the Regional Strategic Initiative an effort to bring together really all the people who have the very best information on the ground from our posts as well as the Intelligence Community, the military, and other agencies. We have a mechanism for crafting strategies in a very real-time manner to deal with threats in particular areas. I believe I have attended five of these so far just since being sworn in last year.

We also have in the form of our global accounts for Counterterrorism Finance, Counterterrorism Engagement, Countering Violent Extremism, and TIP/PISCES, an ability to direct the resources where they are most needed as the threat evolves.

I think that it is true that the threat is different that we face than it was say 5 years ago, and we have seen, for example, in the emergence of Yemen as a place, which you mentioned before, as a place in which there is an AQ affiliate that is prepared to mount logistically sophisticated attempts to attack the homeland. That represents a significant departure from the threat we faced just a few years ago, and in the overall significant rise in funding across many different accounts for Yemen, we are dealing with that particular threat.

You asked about how we deal with DOD. We have a very close relationship with the Department. Under our chairmanship at the State Department we have essentially a capacity building coordination mechanism to ensure that we aren't duplicating; that we have

the same sense of the threat; that we are allocating resources as needed to exactly the right kinds of functions in differing countries and in differing regions.

I would add that it is very important that we expand our activities, as this budget does, to countering violent extremism, because I believe the President came in with the belief that we needed to take a more strategic approach to counterterrorism and not deal only with those terrorists who are already in the field but to try to stem the tide of recruits, because this is critically important for our ability to roll back the threat over time. That is why we have directed \$15 million, we have asked for \$15 million for countering violent extremism so that we can make interventions in those environments around the world in ways that will turn those who are headed for violence away, those who are most at risk of joining the terrorist camp. I think this is vitally important.

As for the question of intelligence, we have a daily drip of intelligence. We are completely plugged into everything that is going on in the Intelligence Community. I have an NCTC and a CIA detailee in my office. And we are through the interagency process intimately bound up with everything that is going on in the intelligence world both in terms of analytic and operations. So I don't see any deficiencies in that regard.

Mrs. LOWEY. Maybe we will leave this for another day, but your responsibilities are so enormous. And I think in Afghanistan, Pakistan, and what is happening in all the villages and all the provinces, I would like to certainly pursue this on another day.

But I will turn to Mr. Crenshaw.

Ambassador BENJAMIN. I would be delighted to.

TIP/PISCES

Mr. CRENSHAW. Ambassador, you talked about terrorism and counterterrorism that was a Terrorist Interdiction Program, TIP. As I understand, that helps countries that terrorist activity is going on, it helps in terms of border security. But is it correct that the administration proposes an \$11 million cut in that program? If it is, seems like in today's world, with terrorism on the increase, is that the right direction to be moving in?

Ambassador BENJAMIN. Sir, our budget reflects, first of all, a fairly austere environment that we are in. The budget that we came up with for TIP/PISCES is robust enough to fund the upgrades that we think are essential in the areas of biometrics. That is really the key initiative that we are undertaking right now. We will be doing biometric upgrades in many key countries—Afghanistan, Yemen, Pakistan, among others—this year and are planning for a wide range of others in fiscal year 2011.

Frankly, we think that we are where we need to be right now in terms of the number of countries that we are in. TIP is not a program for a lot of very well developed countries in which we have lots of other ways of screening and of dealing with travel information. So I think that having reviewed all this, we think that this is really in the right place right now. We think it is a good program and we think this is an appropriate amount of funding for this coming year.

Mr. CRENSHAW. I am not clear. Is it actually a cut of \$11 million?

Ambassador BENJAMIN. I believe it is a cut of a little—about \$11 million, yes, that is correct.

Mr. CRENSHAW. It just seems I hope you can do more with less because that is what we are all trying to do, but it seems to me this is something that is on the front burner in terms of that we have got to make sure we are helping. So I appreciate that.

Ambassador BENJAMIN. I should emphasize it is important to consider TIP within the broader range of all the different terrorist travel programs that are going on in USG, some of which are classified, some of which are not. And we think within that framework this is the appropriate level.

Mr. CRENSHAW. On that point, you mentioned the Ambassador program, the counterterrorism; a lot of smaller grants. Can you give us an idea of how that money might be used? Maybe a specific example. Sometimes it seems like if you take a little bit of money and do a little project, how is that going to impact the big picture in terms of counterterrorism? If you can give us a real world example.

Ambassador BENJAMIN. In fact, if you look at the world of terrorism, a lot of it is a lot of little pictures stitched together. We do have important programs that deal with regional strategies and that deal with terrorist travel and the like, but we also feel a strong need to be attacking those sort of micro environments, if you will, that are producing the terrorists that we face today. And so we are looking for—we are trying to do something that I don't think has been done very much in the past, and that is target programs at this very narrow spectrum of opinion where people are on the verge of being radicalized. We believe that through careful assessment of what the radicalizing drivers are in those particular areas, that we can decide whether a particular neighborhood in a particular country needs some kind of economic initiative, whether it needs something for at-risk youth, whether we want to push for some kind of school to be a rival to, shall we say, a radical institution that is the centerpiece of radical activity in that area. There are a lot of different things. There is some very interesting work going on in the Intelligence Community in terms of analysis of these hotspots, and we think that this is one way to go upstream and to stop people from becoming terrorists before we have to deal with them when they are already armed and dangerous.

Mr. CRENSHAW. How do you evaluate that to see if it is working? Is that something you can talk about?

Ambassador BENJAMIN. Well, that, obviously, is going to be one of the big challenges coming up with the metrics that are going to assure us that we are going to be getting this right. And that is part of what we are dealing with now. We are dealing with assessments of different particular cities, areas, that have shown a tendency to produce terrorists. I think that part of the proof will be in the pudding, whether we see fewer radicals coming out of their areas, whether we have a sense that the temperature is being lowered. But we definitely are on the hook to produce those metrics, there is no question.

Mr. CRENSHAW. Thank you. Thank you, Madam Chairwoman.

PCCF

Mrs. LOWEY. Thank you. Secretary Shapiro, in your statement you say that the PCCF continues to build the capability of Pakistan security forces who are directly engaged in combat operations against extremists. In light of the substantial funding already provided, and the \$1.2 billion request in 2011, I would like to know, is it working? Is the intelligence adequate to do your job effectively? Are we able to rely on the Pakistan security forces? Are they actually confronting extremists? What metrics are you using to measure success? How effective has the U.S. counterinsurgency assistance to Pakistan been delivered and employed since 2001?

Mr. SHAPIRO. Thank you for that question. Thank you for your advocacy in having PCCF management moved to the State Department and the confidence that you are showing in the State Department and Bureau of Political-Military Affairs in managing that program.

In terms of the success of security assistance in Pakistan, particularly PCCF, over the last year, in our view the Pakistani security forces have increased their operations tempo and have made great stride against insurgents, including the capture of senior members of the al Qaeda network. They have strengthened their cooperation with ISAF and they have improved their intelligence sharing and assisting in operations in border areas and clearing the necessary space to allow for civilian assistance to commence.

In our view, the way we evaluate the success of the PCCF is measured by the positive results on the ground. We have seen major activity operations in Swat and Waziristan, and that has been a positive development which we seek to continue to encourage.

IRAN

Mrs. LOWEY. Let me go to another part of the world, because I am afraid the votes are going to ring any minute.

I led a congressional delegation to the Gulf States in February, and it was clear from the meetings I had that our allies in the region are very concerned with Iran. There has been a whole realignment and they are all very worried and willing to work with us. It is clear that the leadership in Iran is dominated by a select few hardliners whose pursuit of nuclear weapons and assistance to arms groups in Iraq and Afghanistan, as well as support for terrorism through proxies like Hamas and Hezbollah, continue to make Iran a threat to U.S. national security and the security of our allies in the region. Iran continues to send shipments of weapons to its terrorist allies. What can the United States do? What steps can we take now to put a stranglehold on Iran's ability to smuggle these weapons?

Mr. SHAPIRO. Well, obviously, we are very concerned about the Iranian regime's activities, and I as the Assistant Secretary of PM travel a few times a year to the Gulf and conduct Gulf security dialogue with our friends in the region, and I have heard some of the same concerns that you have heard. And we are working on a counter-smuggling initiative with our friends in the region. At the end of the day, we need to continue to put pressure on the Iranian

regime so that they realize that they do not benefit from this type of behavior and that they indeed will pay a price for this type of behavior.

Ambassador BENJAMIN. Madam Chairwoman, if I can just add to what Assistant Secretary Shapiro said.

Mrs. LOWEY. Yes.

Ambassador BENJAMIN. Our effort to put sanctions on the Revolutionary Guard Qods Force is, I think, a very robust effort to go at the Iranian group that is most involved in the sponsorship of terror. Iran, of course, does remain the leading state sponsor of terror. And with this effort I think we are making it increasingly taboo for others to deal with the Qods Force and with the IRGC more broadly, and this will have a long-term effect on their ability to operate.

Mrs. LOWEY. Well, related to that, I am very concerned with Hezbollah's influence in Lebanon. I am troubled by the recent news reports that Syria has transferred SCUD missiles to Hezbollah, which would appear to be a blatant violation of the U.N. Security Council's resolutions.

Who would like to address that? Can you give us an assessment of the number and types of missiles Hezbollah now has in Lebanon? How would you assess UNIFIL's performance since the last Lebanon war? And what is the government doing to stop Syria's illegal weapons trafficking?

Mr. SHAPIRO. I will take the first shot and Ambassador Benjamin can backstop me. On the assessment, I think we would have to defer to the Intelligence Community for an assessment of the number and type of missiles as well as their capability to strike Israel.

Mrs. LOWEY. Assuming they have that assessment.

Mr. SHAPIRO. Assuming they have that assessment. In terms of UNIFIL's performance, achieving full implementation of U.N. Security Council Resolution 1701, including its call for Lebanon to establish a weapons free zone in the south, secure its borders, and assure all weapons remain under the control of the Lebanese UNIFIL, remains a top priority of the United States. President Suleiman has consistently reiterated his commitment to Resolution 1701, and we are urging the Lebanese to take more assertive steps to combat weapons and to enforce the weapons free zone in the south in the process of militia disarmament.

In our view, we are continuing to work with the Lebanese Government and UNIFIL to stop the weapons smuggling. Obviously, we are greatly concerned about the transfer of weapons to Lebanon, and we continue to monitor it very closely. As I just discussed, we are working with the Lebanese Government to try and limit it and reduce the flow of weapons into Lebanon.

Ambassador BENJAMIN. I would just add to that that I traveled with Under Secretary Burns to Beirut and Damascus earlier this year and I can tell you that the messages on these issues in both capitols were absolutely crystal clear. And we have made the Syrians know our deep concern about any potential introduction of longer range missiles into Lebanon. And it is a subject that we are watching closely and are deeply concerned about.

Mrs. LOWEY. Before I just turn to my ranking member, following up on that, this Congress has been very concerned and has made

sure that Israel's qualitative military edge has been maintained. It is a longstanding policy, as we know. As the U.S. seeks to sell even more advanced equipment in Arab states, what steps are being taken to ensure that these sales will not ultimately undermine Israel's qualitative military edge?

Mr. SHAPIRO. Thank you for that question. The qualitative military edge and evaluating Israel's qualitative military edge and ensuring that it is maintained is one of my top priorities at the Bureau. As Secretary Clinton said, for President Obama and her and for this entire administration, our commitment to Israel's security and Israel's future is rock solid, unwavering, enduring, and forever. So we look at every sale in the region through the lens of how it will impact Israel's qualitative military edge. We have consultative mechanisms so we can understand what the Israelis are concerned about in terms of the regional situation. We also have a robust dialogue with our partners at the Pentagon to assess what the introductions of weapons systems in the region will mean.

At the end of the day, we need to strike the right balance because we want to demonstrate to our partners in the Gulf that we are a reliable ally, and bolster them so they are better able to resist the pressure from Iran. But, at the same time, we want to assure that Israel's qualitative military edge is maintained. It is a complicated process. It requires balancing. But we take it very, very seriously, and we are consulting closely.

Mrs. LOWEY. Thank you. Ms. Granger.

Ms. GRANGER. Thank you. In a conversation I had with Ambassador Pascual about the situation in Mexico, he explained to me that there was an emphasis on the Mexican police forces; that it is different from what it has been from where the military has been taking the lead up to this point. It is my understanding that the State Department is exploring the possibility of entering into agreements with State and local law enforcement agencies here in the U.S. with the Mexican police increasing their forces up to, I think, over 30,000 now. That seems like to me a very reasonable thing to do, particularly with the border States like Texas, where we have police training facilities and agencies and of course there is a huge interaction.

I would like to know what the State Department's strategy is for improving Mexico's state and local police forces. Are they asking for this kind of help? Also, what are the possibilities of these local law enforcement agencies in helping with that?

Mr. JOHNSON. Madam Congresswoman, we have been working with the Mexican federal authorities. And so, working through them, but we have a very concentrated effort in several localities, with a real emphasis on Ciudad Juarez, to see how we might assist with them strengthening and almost starting from the ground up yet again on their state and local authorities there. We have an ongoing conversation about that. We have had an assessment of what we might do, and we are working with the Mexican federal authorities to see how most effectively we can engage there. But we already have people on the ground who are working with those state and local authorities in a number of ways.

With respect to how we might engage our own State and local facilities and capabilities here, we got a request about a year ago

from Mexico asking for help as soon as possible, and they were going to start in about 6 weeks training 5,000 new investigators. Their aim is to train up to 15,000 over a period of several months or years, but initially 5,000 that they had recruited, who were university graduates, law school graduates, and this was really a different quality of police officer than they had brought on board before.

In responding to that, we were able to take advantage not just of serving Federal law enforcement trainers—although our Federal Law Enforcement College was very generous with this. That wasn't sufficient. We also knew that some of the skills we were talking about are those that kind of tend to reside in State or local as well. So we were able to reach out to Harris County, Texas, to Los Angeles County, California, and to the City of Chicago Police Department, who were able to assist us with Spanish-language capable trainers who were able to deploy to Mexico and work with us there. It was and is a very effective program, one that is designed by us but in cooperation with the Mexicans where we have transferred that skill and also brought in other countries such as Colombia to help us with that as well.

That was something of a pilot project, if you will, but we want to build on that. Kind of the next stage is to move beyond bringing in what was really individuals from those institutions and try to marry up institutions as a whole.

We have an incipient program with the New York City Police Department to deploy to Haiti because they have a Creole-speaking capability there because of the Haitian American community in New York. I signed a memorandum agreement with Commissioner Kelly about 8 weeks ago now. We are working out some of the final details of exactly what they would do and some of the kinks in the process of getting people to go and some legality issues. But we are confident that they will be able to deploy in Haiti very soon, and we want to build on that not just with New York, but particularly with police agencies that have Spanish language capabilities, because that is really where the need is. Those will come significantly from our border States, especially including Texas.

Ms. GRANGER. Would you keep me aware as that occurs and the timeframe and how many? And in putting that together, the other issue is the report that has just come out giving a number of 16,000 gang members here in the United States related to the drug traffic in Mexico and the cartels in Mexico. And in that policing and all of those issues, those programs that are going on, is there an awareness of that crossover gang membership?

Mr. JOHNSON. Absolutely. We have had anti-gang programs in Mexico and in Central America for several years now. They have been augmented significantly under Merida. They are cross-informational, if you will. We are learning things from those countries about how gangs that operate in a cross-border way are operating in the United States as well.

Ms. GRANGER. Thank you, Madam Chair.

Mrs. LOWEY. Mr. Crenshaw.

Mr. CRENSHAW. Just a quick question. We talked about arms smuggling and the role Iran plays. We talked some about Lebanon, talked about Syria. As I understand, we have a memorandum of

understanding with Israel relating to the flow of arms, rockets, other weapons into Gaza for Hamas. Can you update us on how that is working? Has that had an impact on the flow? And maybe talk about how Egypt, how that works. Are they doing everything they can in that regard?

Mr. SHAPIRO. Yes. We have worked very closely with the Israelis on Gaza counter-smuggling. There is a Gaza counter-smuggling initiative that has been set up to work with a number of states. It had a meeting last year, and there is an upcoming meeting. It is designed to focus on how to prevent smuggling into Gaza. We are pleased by the efforts that the Egyptians have made regarding counter-smuggling in Gaza, but at the end of the day there is a demand signal in Gaza because of—there is demand for these goods.

So there are a couple of things that we need to think about, how do we reduce that demand signal by ensuring that there is enough humanitarian aid going in. And obviously we talk with the Israelis about that. Also, we are looking at ways to give the Bedouin, who do a lot of the smuggling, a better economic deal. So we are trying to look at creative ways to address that as well.

Mr. CRENSHAW. I am talking about weapons. Is it working? Can you see a significant impact that this memorandum of understanding has had over the last year?

Mr. SHAPIRO. In terms of our assessment of weapons in Gaza, I think that we probably would have to discuss in more classified setting. But I would say that countering smuggling, you are trying to capture—when you stop smuggling, you are capturing both weapons and economic goods. So efforts to reduce weapons smuggling will also impact the other. And often they use the same routes. The same smugglers will smuggle weapons or other things. So we need to address the economic incentives that smugglers have and some of the networks that they are using.

Mr. CRENSHAW. Thank you.

Mrs. LOWEY. Let me just follow up before I turn to Mr. Kirk. If you can follow up on Mr. Crenshaw's questions. We understand that the smugglers, the Bedouins, are smuggling weapons and economic goods. So I would be interested in the same issue. With the cooperation, supposedly, of the Egyptians, you are saying you can't do anything about the weapons going through?

Mr. SHAPIRO. Not at all.

Mrs. LOWEY. Can't we do more to stop the smuggling of weapons?

Mr. SHAPIRO. What I was saying is that we are—we need to take away the economic incentives for smuggling.

Mrs. LOWEY. Sell the weapons on the open market?

Mr. SHAPIRO. I am talking about the smugglers are paid to smuggle the weapons.

Mrs. LOWEY. I get that. I also understand that their clothing and everything else is going through. But my question is: If we were really determined—I think that is what Mr. Crenshaw is saying—if in fact the Egyptians are really determined, and they are building this wall, I guess you call a partition wall, you are saying there is nothing we can technically do to stop the weapons from going through?

Mr. SHAPIRO. No, I am not saying that at all. I am saying we have been encouraged by the Egyptian efforts to stop smuggling and we want to encourage those, and we want to continue our work through the Gaza counter-smuggling initiative to prevent weapons from flowing.

Mrs. LOWEY. Could you discuss that further with us, the initiative, and how it is more effective than what it has been in the last few years?

Mr. SHAPIRO. We have been trying to energize that process.

Mrs. LOWEY. What does that mean?

Mr. SHAPIRO. Be engaging in a major diplomatic effort consulting both with the Israelis and the other Europeans who have signed up for this initiative. So we are engaged in intense discussions with our allies on how to prevent the weapons from entering Gaza.

Mrs. LOWEY. Let me just say I would like to have further discussion. I think we need to have a classified setting to tell us exactly what is being done because I am very concerned. There are reports again today about the SCUDs going into Lebanon. Today's report from Syria. I don't think we can continue just saying we are going to keep talking about it.

Did you want to contribute to that?

Ambassador BENJAMIN. I would just add that there is a lot of very technically sophisticated work that is going on that I don't think is yet at a stage where I think we can say it is delivered yet but it is in process and will be quite productive again. As Assistant secretary Shapiro suggested, we will probably do this better in a classified setting. There is quite a lot going on.

I would also add that the smuggling issue is not confined to Gaza alone. Egypt is contending with smuggling networks that take it down into Sudan, into the Red Sea. Very complicated paths. We are looking at that. We are quite satisfied that the Egyptians are making a very, very serious good faith effort, but there is a lot of additional resources that are required here to really put a dent in it. These smugglers are incredibly innovative and resourceful. But I do think that we are on the right track here.

Mr. SHAPIRO. We are also working with the Department of the Treasury to identify and designate individuals and groups involved in Gaza arms smuggling by cutting off the financial means for terrorist groups in Gaza to operate.

Mrs. LOWEY. I think Mr. Crenshaw and I understand this. I think we need to have another discussion in a classified setting, because these smugglers are getting the best of Egypt, the United States, the Israelis, and this is a tinder box, and it can become a greater tinder box. I think we really need to get more information on this.

Mr. Kirk.

Mr. KIRK. I want to ask a question related to the work that Congressman Israel and I are doing in regard to Afghanistan. To be fairly blunt, we have lost militarily the battle around the key dam in western Afghanistan called Kajaki Dam and have decided to not add to its capacity. It was the planned source of electricity for Helmand and Kandahar. Because the British can't hack it, we are not going to move forward on that plan. We won the battle of Marjah and Helmand. And ISAF has now signaled that we are

going to fight the battle of Kandahar in June or July, from what ISAF has openly told the press.

Congressman Israel and I have been very focused on providing reliable electrical power to Kandahar, because the writ of the government seems to end wherever electricity ends. I think AID staff, largely thinking that it wasn't invented here, is resisting this, but I will tell you just about every one at the Kandahar PRT is strongly—and ISAF—strongly in favor of building a set of generators at Kandahar airfield, where they can be protected, and then running a power line the 10 miles into the city, so that when U.S. troops are fighting and dying we have electricity to roll in right afterwards to improve things.

Are you guys going to let the bureaucracy kill the Kandahar power project and undermine our troops or are you going to let it go forward as the bipartisan majority here wants to do?

Mr. SHAPIRO. I will just start off by saying this is not something that I think any of us here—you correctly pointed out it is a USAID program. So I am not familiar with the details.

[The information follows:]

April 14, 2010
David Johnson

Mr. Kirk. Are you guys going to let the bureaucracy kill the Kandahar power project and undermine our troops or are you going to let it go forward as the bipartisan majority here wants to do?

Mr. Johnson. As is consistent with development principles, the U.S. Government through our Afghan First policy is working to put the Government of the Islamic Republic of Afghanistan in the lead for this issue. The State Department, through Embassy Kabul, USAID and our military colleagues recognize that increased power supply to Kandahar will demonstrate the Government of the Islamic Republic of Afghanistan's ability to provide needed services to its people and thus contribute to stability in the province and surrounding areas. Current estimates state that there is a 23 megawatt gap between the demand for and supply of power in Kandahar and is working to narrow that gap, both with short term solutions as well as longer-term sustainable actions.

Our colleagues in Afghanistan have developed a way forward.

- Repair and upgrade the electricity distribution system to reduce technical losses and improve business practices to reduce commercial losses. We estimate that these improvements could save as much as 3 MW.
- Repair and install up to 5 MW of new diesel generators at the Kandahar Industrial Park, and connect these to the grid.
- Support ongoing operations and maintenance of the existing diesel power plant to replace between 10- 14 old generators with more efficient generators (would produce up to an estimated additional 10.5 MW).

In addition, the US Government is considering procuring and installing between 20-30 megawatts of diesel generators with a multi-year commitment for fuel. This additional interim measure will provide time for security to be improved, in order to enable final rehabilitation of turbine 2 of the Kajaki Hydropower Dam and replacement/repair of the transmission line from Kajakai to Kandahar, which will allow an additional 18.5 megawatts of power to flow into the Helmand Valley.

Furthermore, we are also working to procure solar street lamps for Kandahar. As of late May, we are planning to install 44 lights per kilometer or 440 street lights along 11 kilometers of roads.

Longer term solutions being discussed include raising the reservoir of the Kajaki dam and building a new powerhouse, substation, and transmission line, which could provide an additional 100 MW of power. Linking the South East Power System to the Northeast Power System (NEPS) could also furnish at least 30 MW. It is important to note that both of these goals are at least five years away.

Our civilian and military colleagues in Kabul are investigating the various ways that the short- to mid-term activities can be appropriately funded with available resources.

Mr. KIRK. Since it is the focal point of U.S. combat forces and the press and the President, you should be better prepared.

Mr. SHAPIRO. Okay.

Mr. KIRK. Tends to be every major network will be there. So you better know your briefs.

Mr. SHAPIRO. We will take back your comments and consult with the special representative at USAID and get you back an answer.

Mr. KIRK. They will resist you, to the detriment of our soldiers. You need to provide electrical power where combat operations are happening.

Mrs. LOWEY. I just want to stress to you that this is an issue for the chairwoman. I have worked with Mr. Israel on it and Mr. Kirk on it. With an upcoming supplemental, we definitely want to have further discussions with you so we can take action.

I am very concerned in general with several of the issues that have come up in recent days. I believe, sir, you mentioned you went to the New York City Police Department to get Creole speakers. Again, we probably should do this in a classified session, but it seems to me we are constantly just catching up. When it comes to intelligence or other agencies representing here today, I have heard at many hearings, Well, we don't have the language capacity and we need to train people. It would seem to me that—and I understand the way some of these agencies work. A couple months there, a couple years there, and then they come back and forth. But seems to me we have to look ahead and see where the problem is, where we need the language capacity, whether it is DOD or State or Intelligence and plan ahead for it. Frankly, I have been very concerned about some of the answers I have gotten.

So if this is an issue that we should be concerned about, we need to have a classified briefing so we can get some better answers.

I would also like to say with regard to Mr. Kirk's comments, I would like to perhaps, in a classified briefing, again—we may have won the battle, but I don't know about the hold part and I don't know about the cooperation with all the villages. It would seem to me there are too many reports about the Taliban moving in and threatening the villages, frightening the villages.

So I would certainly suggest to this committee that I think we need another session to pursue the issue you brought up, to pursue the issue Mr. Crenshaw and I brought up, and I know there is a lot of concern from those who happen to be in another meeting today.

Let me just, unless you have another question.

Mr. KIRK. I have one other.

Mrs. LOWEY. Yes, Mr. Johnson.

Mr. JOHNSON. If I could respond to the issue about the Creole speakers. I have access to literally hundreds of Creole from traditional sources. I wanted to develop this capacity with State and local providers because I thought it was in our best interest to do that and saw this as an opportunity and so did the NYPD. So this was a seized opportunity. We had Creole speakers at our leisure.

Mrs. LOWEY. Let me say the Creole wasn't a good example of the point I was trying to make because we didn't know there would be an earthquake in Haiti and we wouldn't know there would be the urgency.

We can continue this in a classified setting, as I mentioned, but there are areas of the world where, as you know and I know, State Department, DOD, intelligence agencies, are rushing to get people trained, when perhaps we could have predicted it. Let me leave it at that.

Mr. Kirk.

Mr. KIRK. Two parts on the second issue, which is you have requested this committee approve \$212 million for UNIFIL. Name the top three successes of UNIFIL in the last year.

Mr. SHAPIRO. Well, we will get back to you for the record.
[The information follows:]

April 14, 2010
Andrew Shapiro

Mr. Kirk. Name the top three successes for UNIFIL in the last year?

Mr. Shapiro. UNIFIL actively assists the Lebanese Armed Forces (LAF) in taking steps towards keeping southern Lebanon free of armed personnel, assets and weapons other than those of the Government of Lebanon and of UNIFIL deployed in this area. UNIFIL has grown more assertive in response to recent incidents in its area of operations:

- Last December a UNIFIL patrol spotted men engaged in suspicious activity. UNIFIL investigated and discovered 250kg of explosives.
- The September 11, 2009 rocket firing into Israel from southern Lebanon was limited by prompt action by UNIFIL troops and the Lebanese Armed Forces (LAF). Fortunately, the rockets caused no casualties.
- UNIFIL has made steady progress to visibly mark the Blue Line, the border demarcation between Lebanon and Israel. Sixty-nine points have been agreed on by the parties, with 40 markers already installed,

and 23 markers under construction with seven points set to be measured on the ground with the parties.

UNIFIL continues to play a crucial role in preventing violence along the Blue Line and attacks from southern Lebanon, such as those that sparked the 2006 war in Lebanon between Hizballah and Israel. While there is much work left to be done, UNIFIL provides a buffer in southern Lebanon while the parties move towards a permanent ceasefire and a long-term solution that includes the complete disarmament of all militias in Lebanon, including Hizballah.

Mr. KIRK. Just off the top of your head. Give me the top two.

Mr. SHAPIRO. I think from our perspective UNIFIL plays an important role in Lebanon. We work with them to try and prevent smuggling. So they do play an important role that we want to continue to work with them on. I can get you a more detailed answer for the record, but I do think that we view them as someone who is important to continue to communicate with and coordinate with as we try and develop a Lebanon that will be resistant to extremist influence. As we try and work to build up the Lebanese Government, the Lebanese Armed Forces, that will be able to resist the influence of Hezbollah and other extremists.

Mr. KIRK. I will just follow up. I think there will be bipartisan concern on this issue as well.

Utterly useless, seems to be the \$212 million that you are asking for. You can't even keep SCUDs out of southern Lebanon. And we can tell you exactly where they are. But you will try to get \$212 million out of this committee and you will not even get them to go into a single SCUD barn and get it out of Lebanon. So the question is: For \$212 million in taxpayer money, it is a total waste of money. They have completely rearmed. My understanding is that under UNIFIL's AOR they have more missiles against Israel than they have ever had ever. Now they have failed to stop SCUDs from coming in, which are enormous vehicles that are well and easily tracked, and you will not be able to certify that for \$212 million you will get a single SCUD seized by UNIFIL, will you?

Mr. SHAPIRO. As of now, the assessment of what weapons are in and out of Lebanon, as I mentioned, would probably have to take place in a classified setting.

Mr. KIRK. It used to be classified, but it is now in three major newspapers in the Middle East. So it is kind of out that UNIFIL has totally, completely failed. And you want us to give them another 212 million bucks. For what? You couldn't even specifically name the top three achievements of UNIFIL.

Mrs. LOWEY. Mr. Kirk, I think perhaps we can have more in-depth discussions on that issue as well.

Gentlemen, let me just say that I appreciate your coming here. This is a very serious issue. We have covered part of the globe, but I know we will look forward to continuing the discussion in a classified setting. Thank very much for coming.

This hearing is concluded.

THURSDAY, JULY 15, 2010.

**OVERSIGHT OF U.S. CIVILIAN ASSISTANCE FOR
AFGHANISTAN**

WITNESSES

MAJOR GENERAL ARNOLD FIELDS, USMC-RETIRED, INSPECTOR GENERAL, OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN

HON. DONALD A. GAMBATESA, INSPECTOR GENERAL, USAID

CHARLES JOHNSON, DIRECTOR, INTERNATIONAL RELATIONS AND TRADE, GAO

OPENING STATEMENT OF CHAIRWOMAN LOWEY

Mrs. LOWEY. Good morning. The subcommittee will come to order.

The State and Foreign Operations and Related Programs Subcommittee serves a vital role in supporting our national security by appropriating funds for diplomacy, development, and humanitarian response worldwide. Civilian contributions to the Administration's strategy are integral to the success of the military and the stability of Afghanistan and the region.

For example, there are effective programs funded by the U.S. Government like the National Solidarity Program and the Maternal and Child Health programs that have contributed to local development and increased stability in regions of the country.

However, due to recent allegations of rampant corruption and theft of U.S. Government assistance, concerns with billions in cash leaving Kabul airport, and alleged influence peddling and interference with and obstruction of corruption investigations by Afghan officials, I deferred consideration of the \$3.9 billion requested for foreign assistance to Afghanistan in fiscal year 2011. The State Department's assessments that such activities undermine our civil-military mission and our responsibility to ensure Americans' hard-earned tax dollars are not squandered or mismanaged, especially in this time of economic recovery, require our urgent and thorough examination.

Now, I want to make it very clear to my colleagues on both sides of the aisle that \$4.1 billion has been appropriated for civilian-led assistance programs in Afghanistan in the fiscal year 2010 bill, and \$1.7 billion has been appropriated in the fiscal year 2010 supplemental for civilian-led assistance programs in Afghanistan that passed the House July 1st and which the Senate will consider in the coming weeks. It is my understanding that 90 percent of Fiscal Year 2010 funds remain unobligated as programs are being developed now.

Therefore, the Fiscal Year 2011 bill will not become law until the Fall after both Chambers consider it. We have the responsibility,

the obligation, and the time to protect taxpayer money and get the process right; and I am very pleased that the Administration understands that we need accountability and they have agreed to work with us.

I welcome the Special Inspector General for Afghanistan Reconstruction, Retired Major General Arnold Fields; the USAID Inspector General, Donald A. Gambatesa; and the Director of International Relations and Trade of the Government Accountability Office, Charles Johnson. These government watchdogs will provide insight into their audit and investigation findings to date, existing mechanisms to safeguard our assistance dollars, any gaps in oversight, and any evidence they have uncovered of corruption and graft within programs under this Committee's jurisdiction.

Just yesterday, the GAO released a report, entitled Enhancements to Performance Management and Evaluation Efforts Could Improve USAID's Agricultural Programs, which outlined concerns with management and oversight of significant U.S. funded agriculture and alternative development programs in Afghanistan. Similar to previous reports, its findings indicate compromised effectiveness, including the lack of project management, defined goals and outcomes, and direct oversight. Please outline for us today additional procedures that USAID should implement to more clearly define goals and measure and validate outcomes.

Because the President's strategy depends on the capability of the Afghans to govern effectively, we look forward to your evaluation of the level of commitment of Afghan officials to improve governance and accountability. For example, are senior Afghan Government officials impeding investigations into bribery and corruption? And, if so, what action is being taken by United States Government and Afghan officials to stop such interference and move forward with prosecutions? What steps have the Afghan Government taken to support anti-corruption efforts, and do you believe they are effective?

Especially given President Karzai's call this past Monday for the international community to channel 50 percent of donor assistance through Afghan Government ministries, it is essential that the Government of Afghanistan be capable of managing international assistance in an effective, transparent, and accountable manner.

Have the Department of State and USAID established conditions on the provision of direct assistance to Afghan ministries? If so, what are they? Are the conditions adequate? Are the assessments or certifications of Afghan ministries under way? If so, who is undertaking these assessments and what is the process? What recommendations do you have for the Administration and Congress to strengthen the assessment and certification process and provide greater assurance that any funding channeled through Afghan ministries is properly monitored, programmed, and executed?

And finally, this Committee is under no illusions about the difficulty of implementing programs in Afghanistan, including security threats, a nascent banking system, challenges in identifying and developing credible local partners, among many other factors.

In fact, just in the last 2 days, eight American servicemen were killed and today five Ministry of Health employees were kidnapped in Kandahar while on a health mission to help their countrymen.

Our hearts and prayers go out to both our soldiers and their families who have made the ultimate sacrifice and to the Afghans who are risking their lives to rebuild their country.

To ensure effectiveness of our assistance in this environment, this Committee has increased funding for Inspector Generals and mandated close consultation on implementation of U.S.-funded programs. In fact, some of the concerns we will address today may have been uncovered as a result of this expanded investigative capacity and the Government of Afghanistan's increasing ability to monitor funds and programs.

Our discussion today of the systems currently in place to safeguard United States assistance from fraud and abuse and your insights on additional steps the Subcommittee should take will help us in our work in refining the fiscal year 2011 bill before it goes through the entire process and becomes law, we hope, in the Fall.

Before turning to Ranking Member Granger, let me close by saying that the Subcommittee intends to hold an additional hearing and briefings with other top Administration officials to examine ongoing efforts to provide accountability and thwart corruption in Afghanistan. With such high stakes, and we know how high the stakes are, any gaps identified by our witnesses today must be immediately addressed to provide confidence—confidence to the American people—that assistance for Afghanistan continues to advance our mission and support our troops in the field.

I would like to turn to my ranking member, Kay Granger, for her statement before we proceed.

OPENING REMARKS OF MS. GRANGER

Ms. GRANGER. Thank you, Madam Chair; and thank you for calling for this very important hearing on Oversight of U.S. Civilian Assistance for Afghanistan.

I understand this will be the first in a series of hearings, the chair outlined that we will be holding; and I agree there are many issues that should be addressed and I hope will be addressed in these hearings.

Let me begin by saying I share the chair's concerns about the disturbing news reports coming out almost every day highlighting the corruption problem in Afghanistan. We are all eager to get to the bottom of those allegations.

I would also like to cite some of the most alarming results of recent surveys: A UN report earlier this year showed that more Afghans are concerned about corruption than any other public problem. Transparency International's most recent survey again ranked Afghanistan as one of the most corrupt places in the world. And just last week an Afghanistan-based group revealed a new study showing that bribery may be a billion dollar business.

Corruption is not something that can be fixed overnight, but we must do all we can. This subcommittee must take decisive action to ensure that U.S. taxpayer funds are used as they were intended to be used. At the same time, I want to be sure that the subcommittee's actions support the broader strategy on the ground in Afghanistan. The strategy was not intended to be solely a military endeavor. The civilian side was inherently linked to the overall.

As General Petraeus noted in his June 15th testimony to the Senate Armed Services Committee, a critically important part of our civilian military campaign in Afghanistan is promoting broad-based economic and infrastructure development. With this in mind, I remain concerned about any potential negative impact that withholding foreign assistance could have while U.S. military and civilians are on the ground.

That is why it is essential that we hear from the witnesses before us today to get a better understanding of the oversight that is being conducted.

I also look forward to another hearing with senior administration officials who are responsible for executing the civilian side of the Afghanistan strategy.

I want to welcome today's witnesses. They are very important in what we are learning and how we will move forward. Each of you and your organizations play a critical role in preventing and detecting fraud, waste, and abuse of foreign assistance dollars; and I thank you for your service.

The chair has already laid out many questions for you to answer, all of which deserve your attention, but there are a few additional matters I would like for you to address.

First, I want to know that funds invested in Afghanistan are achieving tangible results. This starts by ensuring that programs are free from corruption, which I know we will discuss in great detail today, but it also means that U.S.-funded programs have clear goals and objectives that are tracked and measured over time.

When I visited Afghanistan last fall, I was stunned by the lack of progress there. With roughly \$50 billion invested by the U.S. since 2002, results are difficult to see. This can't continue. Accountability and a focus on results must be part of the culture of U.S. agencies, and that should funnel all the way down to the implementers, the Afghan Government, contractors, grantees, international organizations, and the multiple levels of awardees below them. I would appreciate hearing your thoughts on how we can move toward a focus on results and accountability.

Next, I want to have confidence that sending more assistance through Afghanistan's institutions and nongovernmental organizations is the best course of action. I recognize the need to build the capacity of the government and local groups, but, given the recent allegations, now is not the time to subject U.S. funds to unnecessary risk. If the administration continues with this Afghan First Initiative, more than \$1 billion could be distributed in this way. I believe this policy deserves intense scrutiny, and I would like to hear your assessment and any recommendations that the subcommittee should consider.

I also want to discuss the civilian personnel strategy in Afghanistan. I understand the positions have tripled in the last 18 months, but I want to determine if the people who are filling those slots have the right skills to oversee such large programs and in such a difficult operating environment. I would like to hear your thoughts and any recommendations in this area as well.

In closing, I look forward to getting a better understanding of the work your organizations have already undertaken and the work that is planned to address waste, fraud, and abuse. Your testimony

will help the subcommittee have confidence in providing the funds necessary to support the President's strategy in Afghanistan.

Thank you, Madam Chair.

Mrs. LOWEY. Thank you.

Mr. Lewis.

OPENING REMARKS OF MR. LEWIS

Mr. LEWIS. Thank you very much, Madam Chairman.

I want to congratulate both you and Kay Granger for holding, beginning this series of very important hearings.

The American public, to say the least, is skeptical about our having foreign assistance programs in the first place. The average taxpayer often thinks that we are spending 10, 15 or 20 percent of our national product on foreign aid as it were. You all know that it is considerably below that. Well below 1 percent, as a matter of fact, flows in to these areas. But, nonetheless, the reports that have raised the kind of alarm and concern that the chairwoman has expressed concern about very much feed that public doubt about whether these programs are worthwhile at all.

While I really support strongly efforts to help you give us insight as to what is actually happening on the ground, please know that this is not a partisan consideration. Foreign assistance has to reflect American interests, efforts that we can make to make sure those dollars that are delivered get to those people we portend to want to help in the first place is critical.

One area of interest of mine that I would appreciate your addressing, if you can, involves a long-standing interest about programs we may or may not be carrying forward effectively dealing with the poppy and the impact that those poppy fields have had to feed our enemies, if you will, to provide funding flows that do not help farmers for certain but instead help warlords. I would like to know, hear more about your evaluation as to programs to strengthen the agricultural sector in Afghanistan outside of the poppy. Any reporting you can give us in connection with that would be very much appreciated.

So thank you, Madam Chair.

Mrs. LOWEY. Thank you.

We look forward to hearing from our witnesses. I want to alert you all that we may have votes in about an hour. Your statements have certainly been submitted for the record; and to the extent that you feel comfortable summarizing, please proceed as you wish. And we—in terms of the panel, we will proceed as usual, go from one side to the other, giving each member 5 minutes.

Let us begin with General Fields; and, again, we thank you for appearing here today.

OPENING STATEMENT OF GENERAL FIELDS

General FIELDS. Thank you very much, Chairman Lowey, Ranking Member Granger, and distinguished members of the committee.

Again, thank you very much for inviting me to participate at this very important hearing. I appreciate the introductory comments, Chairwoman Lowey, Ranking Member Granger and Representative Lewis.

I have provided the committee with a longer statement which I will now summarize.

Recent press reports have alleged that billions of dollars have been transported out of Afghanistan via the Kabul Airport. We do not know at this time whether these dollars are from reconstruction funds or not. However, our investigators are aggressively working with other Federal agencies to determine the source of this currency.

The lack of visibility into the movement of money and financial transactions in Afghanistan is one of many issues that puts reconstruction dollars at risk. We have identified problems in four broad areas: accountability, sustainment, metrics, and capacity development. That must be addressed to improve the effectiveness of the reconstruction program and prevent waste, fraud, and abuse.

The U.S. Government does not have an integrated management system that provides complete and accurate data on all reconstruction activities. It does not have a comprehensive database on reconstruction contracts. Such systems, especially given the high turnover of staff, both civilian and military, would help to better manage U.S. projects.

The U.S. Government has very little visibility into the activities of some subcontractors. This must change. SIGAR has identified sustainment issues in every audit it has conducted of an infrastructure project. Not only is the Afghan Government unable to pay for the operations and maintenance of donor-funded infrastructure, it cannot pay for most of its basic operating expenses, including salaries.

The international community is providing 85 percent of the Afghan national budget.

We are finding that U.S. implementing agencies must do a better job of establishing and tracking metrics to help determine if a program is making progress and is sustainable. For example, our recent audit of our capabilities milestone rating system found that the system could not provide reliable or consistent assessments of Afghan security forces capabilities, a part of the reconstruction effort to which the United States alone has already invested over \$27 billion.

The U.S. reconstruction strategy emphasizes building Afghan capacity to govern. The Department of State is implementing this strategy by deploying more civilian experts to work in partnership with Afghans and channeling more reconstruction dollars through Afghan institutions. SIGAR is conducting an audit of the civilian surge to assess the extent to which these civilians are being deployed effectively to achieve U.S. reconstruction goals.

We are also conducting a series of audits to do basically two things: one, examine U.S. and donor efforts to build Afghanistan's institutional capacity to deter corruption and to strengthen the rule of law and, two, the extent to which Afghan institutions have the systems in place to account for donor funds.

These audits are having an impact. I am pleased to say that USAID has since told us that it plans to provide up to \$30 million over the next 3 years to support the High Office of Oversight, Afghanistan's key anti-corruption body; and the U.S. Embassy in Kabul reported that it is working with donors to develop capacity

of the Control and Audit Office, the institution responsible for auditing Afghanistan's public finances.

There are many challenges to providing assistance in a war zone, but we must do a better job to ensure that taxpayer dollars are not wasted.

Building Afghanistan capacity to deter corruption and strengthen the rule of law will be the key to protecting U.S. funds from fraud and abuse. SIGAR is committed to providing oversight in a timely fashion so that our implementing agencies can make course corrections before U.S. resources are wasted.

Thank you very much.

[The information follows:]

Testimony by Arnold Fields
Special Inspector General for Afghanistan Reconstruction
Before the State, Foreign Operations Appropriations Subcommittee
“Oversight of U.S. Civilian Assistance for Afghanistan”
July 15, 2010

Chairwoman Lowey, Ranking Member Granger, and distinguished members of the Committee:

Thank you for inviting me to discuss a critical part of SIGAR’s mission—providing oversight of the U.S. civilian assistance for Afghanistan. We at SIGAR are very grateful for your continuing interest in and support of our work.

The committee has posed important questions to shape today’s discussion. In the course of this testimony I will try to address your concerns by outlining some key issues that we believe must be dealt with to prevent reconstruction dollars from being squandered through corruption, waste, or fraud.

From fiscal year 2002 through fiscal year 2010 (excluding the fiscal year 2010 supplemental request), the Congress has appropriated a total of \$51.5 billion dollars to rebuild Afghanistan. More than half of this has gone to support building the Afghan security forces. The two largest foreign assistance programs—the Economic Support Fund, disbursed by the U.S. Agency for International Development, and the State Department’s International Narcotics Control and Law Enforcement (INCLE) account—have received \$9.74 billion and \$2.69 billion respectively. In his most recent budget requests, the President has asked for an additional \$20 billion, nearly \$5

billion of which would go towards civilian development programs financed through the Economic Support Fund.

Recent press reports have alleged that billions of dollars in cash has been transported out of Afghanistan via the Kabul Airport. These reports have suggested that some of this currency may be from U.S. reconstruction and other donor funding. We do not know whether any of this currency represents funds that have been appropriated for the reconstruction of Afghanistan. Moreover, at the moment, there is no evidence to indicate these exports are the proceeds of illegal activity.

It is important to recognize that Afghanistan has a primarily cash-based economy and there are numerous possible explanations for these movements of cash. For example, the large sums of legally declared currency exports could conceivably be the result of Afghanistan's high reliance on cash to conduct legitimate trade with the international community. It could also be money generated by criminal activity, such as corruption and the drug trade. Since we don't know, we share concerns about the large sums of cash being exported through the Kabul Airport and SIGAR investigators are working with other federal agencies to determine the source of these bulk shipments.

Since March of this year, our investigators have been closely involved in a U.S. Immigration and Customs Enforcement (ICE) initiative to track bulk currency smuggling. At the end of March, ICE, with the assistance of multiple federal law enforcement agencies, launched a three-day operation to examine cash leaving via the airport. During this period seven passengers declared \$8.2 million in cash that they were legally taking out of the country.

During April and May, SIGAR investigative teams made three trips to Dubai to support ongoing investigations, which include looking at the flow of cash between Afghanistan and Dubai. SIGAR has provided relevant information concerning fraud and bulk cash shipments to ICE in Kabul and Dubai. SIGAR's investigations on this matter are ongoing and the details cannot be publicly disclosed at this time.

The lack of visibility into the movement of money and financial transactions in Afghanistan is one of many issues that put reconstruction dollars at risk. SIGAR has identified significant problems in four key areas of the U.S. reconstruction effort. These include:

- Lack of accountability and insufficient oversight by implementers
- Inadequate attention to sustainability
- Inadequate attention to metrics
- Insufficient capacity-building in Afghan institutions

Before I address each of these issues, I'd like to explain SIGAR's approach to oversight. My experience in Baghdad, where I served as Chief of Staff of the Iraq Reconstruction and Management Office, taught me that building in a war zone poses special challenges to providing effective oversight. It is not enough to simply conduct audits of contracts and program management after money has been spent—although this is certainly an important part of our work. In a rapidly changing environment, where the United States is trying to simultaneously provide security, build governing institutions, and foster economic development, part of the oversight mission must be to identify systemic problems that prevent us from achieving our strategic goals. This is especially true in Afghanistan where our strategy has been changed or modified several times over the last two years.

SIGAR is therefore conducting a broad range of audits and fielding a robust team of investigators to look into allegations of waste, fraud, and abuse. Our work to date has shown that there is insufficient attention given to accountability, sustainability, metrics, and building Afghan capacity to govern effectively.

Let me begin with accountability.

Accountability

Accountability is the cornerstone of good governance. Without it, we risk losing our investment in Afghanistan to waste, corruption, or fraud. Everyone involved in the reconstruction effort—the U.S. implementing agencies, private contractors, non-government organizations, and the Afghan government—must be held accountable for public funds at their disposal.

SIGAR's work has found several areas where implementing agencies could improve their ability to monitor projects and better account for reconstruction dollars. One of our earliest audits identified the continuing lack of a common information platform that would provide an overview of what each agency was doing in Afghanistan. The United States has been involved in the reconstruction Afghanistan for more than eight years but there is still no integrated management information system to provide complete and accurate information of all completed, ongoing, and planned reconstruction activities. Such a system, particularly given the high turnover of personnel, would help decision-makers and stakeholders to better plan, coordinate, monitor, evaluate, and report on U.S. projects and activities.

In addition, U.S. agencies have no comprehensive data base on reconstruction contracts.

Without complete and reliable information about contracts and subcontracts, it is difficult for U.S., donor, and Afghan stakeholders to properly oversee the performance of contracted

activities. Using data from the Departments of Defense, State, and the U.S. Agency for International Development SIGAR is compiling a list of primary vendors and the reconstruction contracts, grants, and cooperative agreements they are implementing. This has been a time consuming undertaking, but it will enable SIGAR to identify the principal firms, nongovernmental organizations, and other entities involved in reconstruction programs in Afghanistan.

We have a continuing concern about the ability of implementing agencies and their prime contractors to monitor contracts. One of our early audits found that the Combined Security Transition Command-Afghanistan (CSTC-A), which was responsible for training the Afghan security forces, did not have enough contracting officers and program managers to oversee major contracts. As a result of this audit, CSTC-A has made efforts to expand its monitoring of contracts. As part of our audit work, we are examining the ability of other implementing agencies to oversee their projects.

SIGAR audits have also found oversight weaknesses in the construction of facilities built to house and train the Afghan security forces. These weaknesses include a lack of trained contracting officers, insufficient program management, and improper documentation of quality assurance and quality control.

Many of the contractors – international and Afghan – utilize subcontractors to implement significant portions of their contracts. Given the large number of reconstruction projects in Afghanistan and the use of subcontracts to complete the work, the U.S. government faces significant challenges in ensuring proper oversight of subcontractors. More needs to be done to ensure the mechanisms are in place and that proper steps are taken to account for the U.S. funds

provided to contractors and subcontractors. We are looking into this issue in our ongoing audits of private security and reconstruction contracts.

SIGAR shares the concerns of this committee about the potential for fraud in the U.S. reconstruction effort. Therefore, we have initiated a forensic audit program, as mandated, which is using data mining and anomaly detection techniques to identify potential fraud and waste indicators in U.S. expenditures. Our forensic team is currently focusing on transaction data for Afghanistan reconstruction appropriations undertaken by the Departments of State, Defense, and USAID from 2002 to the present. This program will analyze symptoms of fraud such as duplicate payments, payments to fictitious vendors, and payments for goods or services that have not been received. As this work progresses, it may also lead to specific investigations or audits. It will also help us shed more light on how funds are being dispersed in Afghanistan and identify control weaknesses.

Our forensic audit program relies on the availability, accuracy, and completeness of financial transaction data. I believe that each implementing agency should have the systems in place to analyze its own financial data and identify payment anomalies on a regular basis to detect potential fraud and waste. This is not the case today, but it should be an integral part of each agency's oversight of its own programs.

Let me turn to an issue of sustainability.

Sustainability

We must give much greater thought to how programs are going to be sustained over the long term. SIGAR has identified operations and maintenance issues in every audit it has conducted of an infrastructure project, whether it is the \$300 million Kabul Power Plant, a \$100 million

garrison, or a \$1.75 million bridge. For example, SIGAR has completed three reviews of recently built Afghan National Army garrisons. These audits found that the Afghan government was not able to maintain and operate completed facilities. As a result, the U.S. Army Corps of Engineers is currently in the process of awarding two operations and maintenance contracts totaling \$800 million for up to 5 years for over 650 Afghan National Army and Afghan National Police facilities. According to the CSTC-A 2008 campaign plan, future costs for sustainment may continue through 2025. Since the Afghan government does not have the technical or financial capacity to operate and maintain these facilities, the United States is adding more to the U.S. taxpayer burden by awarding operations and maintenance contracts to safeguard the U.S. investment and ensure service delivery.

The sustainability issues are far more serious than whether the Afghan government is able to maintain facilities. The World Bank recently published a public expenditure review that found that Afghanistan is a long way from achieving fiscal sustainability. Although the Afghan government has increased its revenue collection for every year since 2006, its expenditures have also been rising. For the current year ending in March 2010, the Afghan government took in an estimated \$1.4 billion in revenues. Afghanistan's national budget is about \$8 billion and foreign assistance currently covers approximately 85 percent of it. According to World Bank projections, spending on the security sector alone, which now accounts for more than 40 percent of government employees, will likely exceed the total revenue collected by the government of Afghanistan for the foreseeable future. To assist in building and retaining a capable civil workforce, the international community is paying most of the salaries of both the civil service and the security forces.

SIGAR is conducting two audits that examine the salary support provided by the United States. The first assesses the salary support for Afghan government employees and technical advisors. The second evaluates the Afghan National Police personnel management system. As part of this audit, we are identifying the salary support provided to the Afghan National Police and evaluating the systems in place to account for the payments. The Government Accountability Office is conducting a similar assessment of the Afghan National Army.

Metrics

We also must establish better metrics and then use them to help us determine if a program is making progress and is sustainable.

Our work has identified serious problems with establishing and tracking metrics for reconstruction activities. For example, in January 2010, SIGAR reported that USAID did not have an effective means for assessing overall progress in achieving U.S. strategic objectives in the energy sector. It was not tracking relevant metrics for its energy projects.

Recently, SIGAR issued an audit of the Capabilities Milestone rating system, which has been the primary metric for measuring the development of the Afghan security forces. Data from this system, which had been in place since 2005, had been used to brief both the Congress and the President. Last October, SIGAR auditors began the first independent evaluation of the Capabilities Milestone rating system. We found that it could not provide a reliable or consistent assessment of Afghan national security forces capabilities. In late April ISAF Joint Command replaced this system with a new unit-level assessment. It is too early to assess the new system but SIGAR's findings and recommendations pertain to any system designed to evaluate the operational effectiveness of Afghan security units.

I can assure you that SIGAR will continue to pay attention to the metrics implementing agencies have established for monitoring progress in other development programs.

SIGAR is also concerned about some aspects of reconstruction planning in Afghanistan. For example, our auditors have found that the Combined Security Transition Command-Afghanistan (CSTC-A) does not have an up-to-date master plan for building infrastructure and facilities needed to house and train the Afghan National Army. As I noted earlier in this testimony, SIGAR has completed three reviews of Afghan National Army garrisons. In each case, our auditors found that the plans provided by CSTC-A did not specifically address Afghan National Army garrisons and referred to out of date end-strength projections for the Afghan National Army, among other issues. As a result, SIGAR is initiating an audit of the planning procedures used by CSTC-A to justify the number and types of Afghan National Army and Afghan National Policy facilities and the rationale for their locations and infrastructure requirements.

Afghan Capacity

The new U.S. reconstruction strategy places much greater emphasis on building Afghan capacity, not only in the security sector, but across the government.

The Department of State, in coordination with many U.S. departments and agencies, is implementing its new reconstruction strategy by 1) deploying more civilian experts across Afghanistan to work in partnership with Afghan officials and 2) by channeling more reconstruction dollars through Afghan institutions. The success of this strategy depends on two things. First, our civilians must be able to meet and work with their Afghan counterparts on a regular basis to design, implement, and oversee reconstruction projects. Second, Afghan institutions must be able to account for the proper use of international donor funding.

SIGAR has two audit initiatives underway that are directly related to the new U.S. reconstruction strategy. First, we are conducting an audit of the civilian surge to identify the number and types of personnel who are being deployed across Afghanistan and to assess the extent to which these civilians are being utilized to achieve U.S. strategic goals. We began this work last April and plan to complete it in the fall. Second, we have initiated a series of audits to determine 1) what the United States and other donor countries are doing to build the capacity of Afghan institutions to deter corruption and strengthen the rule of law, and 2) the extent to which Afghan institutions have the systems in place to account for donor funds.

SIGAR has completed seven audits, including two of key Afghan oversight bodies, as part of our program to assess Afghan institutional capacity. We found that both the High Office of Oversight (HOO), the principal agency responsible for overseeing and coordinating national efforts to combat corruption in Afghanistan, and the Control and Audit office (CAO), the institution responsible for auditing Afghanistan's public finances, suffered from a lack of capacity and independence. Despite the important role Afghan oversight institutions should have in combating corruption and providing accountability over billions of U.S. dollars provided to rebuild the country, the United States and donors had done very little to help develop the capacity of these organizations.

However, I am pleased to report that the U.S. Embassy in Kabul and USAID have each recently taken steps to help Afghans deter corruption and strengthen the rule of law. The Embassy told SIGAR that it is working with the CAO, Afghan government stakeholders, and international donors to formulate and implement a capacity development plan for the CAO. The U.S. Agency for International Development reported that it plans to provide up to \$30 million over three years to support the HOO. The Embassy has also established a rule of law and law enforcement

directorate to develop and coordinate a U.S. civilian-military effort to strengthen Afghan capacity to deter corruption and strengthen the rule of law. I believe these are positive and important steps.

SIGAR recently completed a review of U.S. assistance programs designed to help the Afghan government develop its anti-corruption capabilities. This report has been sent to the agencies for review and comment and will be issued in early August. Broadly speaking, we found that while multiple agencies have anti-corruption assistance programs, the U.S. government has provided the majority of U.S. assistance to Afghans without the benefit of a comprehensive anti-corruption strategy. Although a draft strategy exists, a finalized and approved strategy is urgently needed to guide and direct U.S. anti-corruption assistance.

We understand that the civilian assistance is occurring in a war zone and that we face numerous and difficult challenges in our effort to rebuild Afghanistan. This is not easy. But, we have been engaged in providing security, governance, and development assistance to Afghanistan for more than eight years and I am concerned that we have lost valuable time by not paying enough attention to developing Afghans' capacity to manage their government and their economy in order to sustain and maximize the U.S. investment.

In the past, our reconstruction dollars bypassed the government, in part to prevent a loss to corruption but also due to limitations in Afghan capacity. We fully recognize that capacity and institution building take more time and dedication than it does to build physical infrastructure. However, as the new U.S. strategy recognizes, for the Afghan government to be effective, it must be in more control of its public finances. Our challenge now is to help Afghans develop the capacity to manage and account for those funds. This capacity is also critical to ensuring that the

investments of the U.S. and donor community are sustainable. U.S. implementing agencies must include serious capacity building measures in everything they do. A key component of our oversight objectives for all audits includes identifying and assessing the efforts underway by U.S. agencies to ensure sustainability of U.S. projects, including capacity building efforts.

The U.S. taxpayer needs to know that U.S. funds are not being wasted or stolen in Afghanistan. When Americans read that billions of dollars are being shipped out of the country, they deserve to have clear answers about the nature of that money. While I cannot provide those answers at this hearing, I can tell you that my auditors and investigators are studying this issue. SIGAR investigators are working cases to pursue the fraudulent use of U.S. funds. In addition, SIGAR auditors will soon begin work to determine what the U.S. government is doing to help Afghans build capacity to regulate and control the financial sector. I will keep you informed on the progress of our work.

Chairwoman Lowey, you pointed out last month that this committee has an obligation to all Americans to ensure that their hard earned tax dollars are not squandered through corruption and graft. I believe that everyone involved in the reconstruction effort in Afghanistan—our implementing agencies, contractors, the Afghan government, and SIGAR—share that responsibility. I am delighted to have the opportunity to be here today to talk about our concerns and what SIGAR is doing to foster a culture of accountability in Afghanistan.

Arnold Fields
The Inspector General
Office of the Special Inspector General For Afghanistan Reconstruction

Arnold Fields is the Special Inspector General for Afghanistan Reconstruction (SIGAR), a position to which he was appointed by The President of the United States on June 12, 2008. He was sworn in to the office on July 22, 2008 by the Deputy Secretary of Defense. The SIGAR reports to Congress and keeps both the Secretary of State and the Secretary of Defense informed. Inspector General Fields had previously served as Deputy Director of the Africa Center for Strategic Studies, Department of Defense, a position to which appointed on January 29, 2007. Prior to this position, he served as a member of the U.S. Department of State assigned to the U.S. Embassy in Iraq where he performed duties as Chief of Staff of the Iraq Reconstruction and Management Office (IRMO). He assisted the U.S. Ambassador and Director of IRMO in coordinating the execution of over \$18 billion dollars of U.S. appropriated funds for the reconstruction of Iraq. General Fields served in this capacity from August 2004 until October 2005.

He retired as a Major General from the United States Marine Corps in January 2004 after over 34 years of active military service. At the time of his retirement, General Fields was serving as the Deputy Commander of Marine Corps Forces in Europe headquartered at Stuttgart Germany, in support of the Commander, U.S. European Command and U.S. strategic interests in Europe and Africa. Previous assignments included Director of the Marine Corps Staff at Headquarters Marine Corps in Washington, D.C. where he assisted the Commandant of the Marine Corps in providing executive oversight of a defense force of over 250,000 personnel including active duty, reservist, and civilians; Commanding General of Marine Corps Base Hawaii; Commander U.S. Central Command's Forward Headquarters, with dual responsibilities as the Inspector General of U.S. Central Command which at that time was responsible for U.S. defense and security interests in much of Africa and all of the Middle East and Southwest Asia; Chief of the Evaluation and Analysis Division of the Plans and Interoperability Directorate (J-7) of the Joint Staff at the Pentagon. He commanded a training base at Camp Fuji Japan, working closely with the government of Japan in support of U.S. strategic interests and common security needs and objectives. During Operation Desert Shield and Desert Storm, General Fields commanded a Marine

infantry battalion in operations against the Iraqi Armed Forces. During 1986-1988 he commanded a major unit of the Marine Embassy Security Guard battalion which was responsible for security at all U.S. diplomatic posts in North Africa, the Middle East and Southwest Asia.

His personal decorations include the Distinguished Service Medal; Defense Superior Service Medal with one bronze oak leaf cluster in lieu of second award; Bronze Star Medal with Combat "V"; Meritorious Service Medal; Joint Service Commendation Medal; Navy and Marine Corps Commendation Medal; and the Combat Action Ribbon. He was awarded the Department of State's Superior Honor Award for his service with the State Department in Baghdad, Iraq. General Fields enlisted into the Marine Corps in April of 1969 and was commissioned a second lieutenant in November of that year. He holds a Bachelor of Science Degree in Agriculture from South Carolina State University and a Master of Arts Degree in Human Resources Management from Pepperdine University. General Fields is also a graduate of the Army War College; the Marine Corps Command and Staff College; and the Marine Corps Amphibious Warfare School. In August 2007, the Secretary of the Navy appointed General Fields to a four-year term as member of the Board of Visitors, Marine Corps University, Quantico, Virginia.

Mrs. LOWEY. Thank you very much, Mr. Fields.
Mr. Gambatesa.

OPENING STATEMENT OF MR. GAMBATESA

Mr. GAMBATESA. Good morning. Good morning, Chairwoman Lowey, Ranking Member Granger, and distinguished members of the subcommittee. Thank you for inviting me here today to testify on the oversight of USAID programs in Afghanistan.

Afghanistan's reputation for corruption and fraud is well known. As Ranking Member Granger reported in her opening remarks, a January, 2010, a report from the United Nations stated that it is almost impossible to obtain a public service in Afghanistan without paying a bribe. The latest Transparency International's corruption perception index ranks Afghanistan at 179 out of 180 countries, the second worst in the world.

The U.S. Agency for International Development has obligated over \$9 billion in Afghanistan and currently has more than 400 civilian and Foreign Service national personnel overseeing approximately 100 ongoing grants and contracts worth more than \$7 billion.

Since fiscal year 2003, we have conducted 34 performance audits and made 128 recommendations for improvements and issued 33 financial audits with nearly \$100 million in sustained question costs.

We have also initiated more than 70 investigations, with recoveries and savings of approximately \$150 million. Moreover, in the past 2 years alone, we have referred 10 individuals for prosecution in the United States or Afghanistan.

We have a great deal of experience conducting fraud investigations in Afghanistan, and we work collaboratively with our colleagues from the Special Inspector General for Afghanistan Reconstruction, the Federal Bureau of Investigation, and other law enforcement agencies as well as Afghan police officials and prosecutors.

Although the Afghan Government has not interfered with any of our investigations, we sometimes have difficulty pursuing a case because of the concerns for the security of informants and witnesses. Individuals who provide us with information are often reluctant to continue to participate in the investigations out of fear for their safety. In these instances, we share relative information with appropriate U.S. government agencies within the Kabul Embassy.

With regard to the subcommittee's concern about funds being transported out of Afghanistan, we have no evidence linking USAID assistance programs to the large quantities of U.S. dollars that are reportedly being shipped.

Although Afghanistan is largely a cash economy, most USAID funds are provided to contractors and grantees through electronic transfers. In some situations, sums of money, generally under \$25,000, are paid in cash as in the cash award programs. In these situations, controls have been put in place to ensure that funds have been used for their intended purpose.

USAID has the following systems in place to prevent fraud and abuse: pre-award surveys of contractors and grantees; annual financial audit requirements for contracts, grants and sub awards;

financial reporting requirements for contractors who receive advance payments; and program monitoring by USAID and third parties.

Despite these controls, however, oversight is not as robust as it should be; and USAID does not have a sufficient number of qualified personnel on the ground to monitor projects effectively. However, the agency has developed a more effective monitoring evaluation process, to include increasing staffing and training.

Our office supplements USAID's oversight by performing financial audits and reviewing public accounting firms to determine whether they are eligible to audit agency funds. Financial auditors pay special attention to control over cash.

We also conduct concurrent financial audits of the highest-risk programs, such as infrastructure programs, to provide early detection of potential problems.

As part of the government's commitment to the Paris Declaration principles, USAID is channeling increasing levels of development funding directly to the Government of Afghanistan. By leading the resulting development projects, the Afghan Government can build public confidence in its ability to deliver programs that improve the welfare of the people. However, Afghanistan is still developing the capacity to manage projects and monitor and account for associated resources. This places Federal dollars in greater risk of waste, fraud, and abuse. USAID must develop an approach to building Afghanistan's capacity that balances the imperative for local engagement in the development process with effective stewardship of taxpayers' dollars.

This concept of effective stewardship of taxpayers' dollars is also critical for budget support provided to the Afghan Government through trust funds or other instruments managed by international organizations. My office does not have audit rights to these funds, and oversight of these funds becomes the responsibility of the implementing entity or the Afghanistan's Control and Audit Office.

The following steps could be considered to minimize risk associated with funding assistance programs in Afghanistan:

One would be to require that direct assistance to the Government of Afghanistan be committed through specific projects rather than budget funding so that USAID funds can be traced to its end use; require concurrent audits of USAID's direct assistance to the Government of Afghanistan; adopt specific contracting practices for Afghanistan and other conflict settings that limit the tiers of sub-contractors and subgrantees so that we don't have these subs of subs.

In addition to the options I mentioned, my office can take the following actions, as resources permit, to further mitigate risk:

We can review USAID's pre-award survey and certification process to determine whether further strengthening is required; we can also conduct a review of cash disbursement practices employed by program implementers to see if what we are hearing is really correct as far as the control over the cash; and increase participation with other Federal agencies that are following the trail of expenditures in Afghanistan.

We share the subcommittee's concerns that funding appropriated to foreign assistance programs in Afghanistan not be wasted or channeled to those who wish to do us harm.

I would be happy to answer any questions. Thank you for inviting me here today.

[The information follows:]

TESTIMONY OF
THE HONORABLE DONALD A. GAMBATESA,
INSPECTOR GENERAL,
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

BEFORE THE
APPROPRIATIONS SUBCOMMITTEE ON STATE, FOREIGN
OPERATIONS, AND RELATED PROGRAMS
“OVERSIGHT OF U.S. CIVILIAN ASSISTANCE FOR AFGHANISTAN”

JULY 15, 2010

Madam Chairwoman Lowey, Ranking Member Granger, and distinguished members of the Subcommittee, thank you for inviting me here today to testify on fraud and corruption in Afghanistan. I know you are concerned about recent media reports describing allegations of corruption among Afghan officials, funds being diverted to the Taliban, and large amounts of currency being exported from Afghanistan. The Subcommittee understandably wants assurances that U.S. foreign assistance funding is being protected from fraud, waste, and abuse. I would be happy to share our views with the Subcommittee on these important issues.

Introduction

Afghanistan's reputation for corruption and fraud is well known. A January 2010 report from the United Nations states that it is almost impossible to obtain a public service in Afghanistan without paying a bribe.¹ The country's ranking in Transparency International's Corruption Perceptions Index has continued to drop dramatically since 2005. The latest report for 2009 ranks Afghanistan at 179 out of 180 countries—the second worst in the world.² Furthermore, the environment is extraordinarily dangerous. Since 2002, approximately 400 people, mostly Afghan nationals working on USAID projects, have been killed and approximately 500 injured and disabled in attacks.

The U.S. Agency for International Development (USAID) currently has over 260 U.S. civilian personnel and more than 150 Foreign Service Nationals working in Afghanistan. These employees oversee approximately 100 ongoing grants and contracts worth over \$7 billion. Since 2002, the agency has invested more than \$9 billion in foreign assistance programs in Afghanistan.

¹ "Corruption in Afghanistan, Bribery as Reported by the Victims," United Nations Office on Drugs and Crime, January 2010.

² http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table

The Office of Inspector General (OIG) has provided oversight of USAID programs in Afghanistan since fiscal year 2003. Because of the unusually high risks and large commitment of foreign assistance funds in Afghanistan, we have devoted substantial oversight to programs in that country. Since 2003, we have conducted 34 performance audits and made 128 recommendations to correct deficiencies and make program improvements. We have issued 33 financial audits, which have resulted in nearly \$100 million in sustained questioned costs. I should mention that USAID has been extremely responsive in implementing our performance audit recommendations: 80 percent have been addressed, and the Agency is taking corrective actions in response to those that remain open.

We have initiated more than 70 investigations, which have resulted in recoveries and savings of approximately \$150 million and nine administrative actions, such as employee and contractor terminations and suspensions and debarments. In the past 2 years alone, we have referred 10 individuals to the Department of Justice for prosecution and 4 individuals to local Afghan prosecutors. During the same time period, five have been convicted on criminal charges such as bribery, major fraud, and conspiracy.

Before I discuss the specifics of some of our work and the internal controls that are in place to safeguard program funds, I should tell you that

we have no evidence linking USAID assistance programs to the large quantities of U.S. dollars that are reportedly being shipped from Afghanistan. Although Afghanistan is largely a cash economy, USAID seeks to provide funds to contractors and grantees through electronic transfers and local currency.

Fraud Investigations

Our criminal investigators understand USAID programs and have a great deal of experience conducting fraud investigations in Afghanistan. To leverage our resources, we work collaboratively with the Special Inspector General for Afghanistan Reconstruction, the Federal Bureau of Investigation, the International Contract Corruption Task Force, and other law enforcement agencies. We also work with local Afghan police officials and prosecutors.

Our investigations focus on allegations of fraud and serious mismanagement by individuals and organizations. When the allegations involve host country nationals, we assist Afghan police and prosecutors in conducting certain investigative activities, such as surveillance of suspects, executing search warrants, and effecting arrests. These efforts have resulted in successful prosecution in Afghan courts.

For example, an ongoing investigation of a USAID contractor has resulted in the termination of 10 employees. The contractor was responsible for implementing a \$349 million local governance project intended to address causes of instability and support for the insurgency and to encourage local communities to take action in promoting their own stability and development. Employees of the contractor had approached owners of various companies bidding for subcontracts, offering to help the companies win awards in exchange for a percentage of the contracts' value. Our office has referred the case to an Afghan prosecutor, and we will recommend that the terminated employees be barred from future U.S. Government awards.

Another recent investigation resulted in the arrest and prosecution under Afghan law of an employee working on a USAID community development project. The individual was accused of embezzling nearly \$193,000 while working as a finance coordinator on a \$229 million local governance program. He was responsible for depositing the contractor's monthly tax payments to the Afghan Ministry of Finance, but the ministry reported that it had not received the payments. Local Afghan law enforcement officials, with our investigators' assistance, discovered that the bank deposit slips the subject had submitted to the contractor as proof of

payment were not legitimate. The individual has now been charged with forgery violations under Afghan law and is in jail in Kabul awaiting trial.

Although the Afghan Government has not interfered with any of our investigations, we sometimes have difficulty pursuing investigations because of concerns for the security of informants and witnesses. Individuals who provide us with information are often reluctant to continue to participate in investigations out of fear for their safety. When we cannot pursue investigations for this reason, we share relevant information with the appropriate U.S. Government agencies within the Kabul Embassy.

In addition to our investigative efforts, our auditors also identify suspected fraud. A recent audit of an agricultural program in Afghanistan found widespread irregularities in the records showing distribution of seed and fertilizer, as well as in timesheets for employees in cash-for-work programs. In both cases, recipients were required to mark beneficiary rolls with their fingerprints as evidence that they had received commodities or cash under the program, but the auditors found numerous instances in which fingerprints appeared to be identical. A program subcontractor told the audit team about other cases in which program commodities had not been received by the targeted farmers and the names of allegedly nonexistent people had appeared in beneficiary rolls. Our investigators are looking into these

irregularities. We will continue to conduct performance audits of USAID programs so that we can identify other possible fraud and mismanagement. Our oversight in Afghanistan for the remainder of 2010 will include audits and reviews of programs related to economic development, roads, health and education, availability of technology, electoral support processes, and alternative development. We will also complete an ongoing review of security contracts to determine whether bribes were paid to the Taliban or other groups in exchange for protection.

Control Systems

USAID has several systems in place to prevent fraud and abuse. For example, USAID conducts preaward surveys of contractors and grantees to ensure that they have the necessary accounting systems and experienced personnel to manage USAID funds responsibly.

In addition, accounting and audit provisions are in place that require annual financial audits of contracts and grants and mandate that contractors and grantees maintain records showing how USAID funds were used. These provisions must also be included in any subawards.

USAID has also imposed financial reporting requirements for contractors who receive advance payments. Specialists examine the

contractors' vouchers to determine acceptability of the charges before forwarding them to a certifying officer for payment.

Assistance projects are overseen by USAID employees or by third parties, who conduct site visits and review program progress reports. However, our audits have noted that the oversight is not as robust as it should be and that USAID does not have a sufficient number of qualified personnel on the ground to effectively monitor projects. In response, USAID is developing a more effective monitoring and evaluation process, to include increasing staffing and training.

Our office supplements USAID's oversight by performing financial audits, and we provide policy direction and quality control for financial audits of contractors and grantees performed by public accounting firms that we have found to be eligible to audit USAID funds. The audits focus on determining whether USAID funds have been used for agreed-upon purposes, and the auditors also provide reports on cost-sharing contributions, internal controls, and compliance with contract and grant terms and applicable laws and regulations. Auditors pay particular attention to controls over cash, since cash payments are considered to be more vulnerable to fraud and misuse.

We conduct concurrent audits of the highest-risk program areas, such as infrastructure projects, to provide early detection of potential problems. As I mentioned earlier, we also conduct performance audits that focus on whether USAID programs are achieving their intended goals.

Finally, we conduct fraud education activities to inform USAID staff, contractors, and grantees (including subcontractors and subgrantees) about fraud indicators and to encourage them to contact OIG if they encounter any indications of fraud or misconduct. In the past 90 days alone, we have provided these briefings to more than 500 people.

Oversight Challenges

Oversight in Afghanistan is complicated by a multitude of factors: Security concerns, language limitations, cultural differences, and lack of jurisdiction over certain funds.

As part of the U.S. Government's commitment to the Paris Declaration principles, USAID is channeling increasing levels of development funding directly to the government of Afghanistan. By leading the resulting development projects, the Afghanistan government can shape more development activities, promote project sustainability, and build public confidence in the government's ability to deliver programs that improve the

welfare of the people. However, Afghanistan is still developing the capacity to manage projects and monitor and account for associated resources. This places federal dollars at greater risk of waste, fraud, and abuse. USAID must develop an approach to building Afghanistan's capacity that balances the imperative for local engagement in the development process with effective stewardship of taxpayer dollars.

The effective stewardship of taxpayer dollars is also critical for budget support provided to the Afghan Government through trust funds or other instruments managed by international organizations. USAID/OIG does not have audit rights to these funds. Therefore, oversight of these funds becomes the responsibility of the implementing entity.

Moving Forward

Considering the reported problems of corruption and the lack of capacity in Afghan institutions for safeguarding resources, we believe that USAID funding is at significant risk of waste, fraud, and abuse. Several steps could be considered to minimize these risks:

➤ Require that direct assistance to the Government of Afghanistan be committed through specific projects, so that USAID funds can be traced to end uses, as opposed to being commingled with other sources of funding.

➤ Require concurrent audits—conducted or supervised by USAID/OIG—of USAID’s direct assistance to the Government of Afghanistan.

➤ Adopt specific contracting practices for Afghanistan and other conflict settings that limit the tiers of subcontractors and subgrantees.

In addition to the options I have mentioned, OIG can take the following actions, as resources permit, to further mitigate risk:

➤ Review USAID’s preaward survey and certification process to determine whether further strengthening is required of the criteria for approving organizations for awards.

➤ Conduct a review of cash disbursement practices employed by USAID contractors and grantees.

➤ Increase participation with other federal agencies that are following the trail of expenditures in Afghanistan.

We appreciate the Subcommittee’s interest in our work. To help OIG meet its oversight challenges, we ask for favorable consideration of proposals to expand our personnel authorities that are provided in versions of H.R. 4899. These authorities would allow us to increase our oversight presence in Afghanistan by supplementing existing staff with other highly qualified and experienced personnel. We would also use these authorities to

retain personnel with the language skills and cultural understanding that would enhance our audit and investigative activities.

We share the Subcommittee's concerns about ensuring that funding appropriated to foreign assistance programs in Afghanistan is not wasted or channeled to those who wish to do us harm, and we are making every effort to respond to associated reports and allegations. I would be happy to answer any questions you may have at this time.

Donald Gambatesa Appointed Agency's Inspector General

Donald A. Gambatesa was sworn in Jan. 17 as USAID's fourth inspector general.

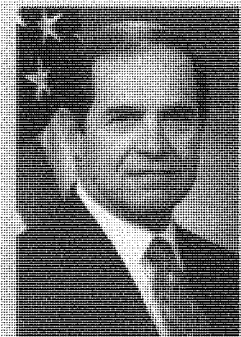
As such, Gambatesa is charged with leading independent audit and investigation activities to support integrity, efficiency, and effectiveness in USAID's operations and programs. The inspector general is responsible for keeping the Administrator and Congress fully informed about problems and deficiencies in USAID programs and operations and the necessity for, and progress of, corrective actions.

Gambatesa previously served as the deputy director of the U.S. Marshals Service and has more than 30 years of federal law enforcement experience. He has worked in OIG investigations, and for 24 years was a special agent of the U.S. Secret Service, where he held several leadership positions managing protective and investigative operations at home and overseas.

In addition to USAID, Gambatesa serves as inspector general for the Millennium Challenge Corporation, the African Development Foundation, the Inter-American Foundation, and the Overseas Private Investment Corporation.

Gambatesa is a graduate of John Carroll University and the Federal Bureau of Investigation's National Executive Institute. He is a member of the International Association of Chiefs of Police and the National Executive Institute Associates.

USAID's former inspector general, Everett L. Mosley, retired in 2004. Several acting inspectors general carried out the duties of the post between that time and Gambatesa's appointment.



Donald A.
Gambatesa

Mrs. LOWEY. Thank you very much.
Now we are very happy to hear from Mr. Johnson. Thank you.

OPENING STATEMENT OF MR. JOHNSON

Mr. JOHNSON. That you, Madam Chairwoman, Ranking Member Granger, and members of the subcommittee.

I am pleased to be here to discuss oversight of U.S. assistance programs in Afghanistan. Strengthening the Afghan economy throughout development assistance efforts is critical to the U.S. counterinsurgency strategy and a key part of the United States' civilian military campaign plan for Afghanistan.

Since fiscal year 2002, the U.S. Agency of International Development has awarded over \$11.5 billion in support of development assistance programs in Afghanistan. Since 2003, the GAO has issued several reports and testimonies related to U.S. efforts in Afghanistan. In addition to reviewing program planning and implementation, we have focused on efforts to ensure proper management and oversight of the U.S. efforts. These are essential to reducing waste, fraud and abuse. Over the course of this work, we have identified improvements that were needed as well as obstacles that affect the success and should be considered in program management and oversight.

While drawing on past work related to U.S. development efforts in Afghanistan, I will focus much of my testimony today on findings in our most recently released report which was just released yesterday on the USAID's management oversight of its agricultural programs in Afghanistan.

My statement today will address the challenges the U.S. faces in managing and overseeing development programs and the extent to which the USAID has followed its existing and established performance management and evaluation procedures.

To start, I would like to note that various factors challenged U.S. efforts to ensure proper management and oversight of U.S. efforts in Afghanistan. Among the most significant has been the high-threat working environment that U.S. and others are working in, the difficulties in preserving institutional knowledge due to the lack of formal mechanisms for retaining and sharing information during high staff turnover, and the Afghan Government ministries' lack of capacity and corruption challenges.

It is also worth noting that the USAID has taken some steps to assess and begin addressing the limited capacity of the Afghan ministries and to address corruption challenges associated with those ministries.

USAID has established performance management and evaluation procedures that are already in place to help oversee its programs. These procedures, among other things, require the development of a mission performance management plan, the establishment and approval of implementing partner performance indicators and targets, and the analysis and use of performance data.

We have found, however, that the USAID has not consistently followed its established performance management and evaluation procedures. In particular, we found that the Afghanistan mission had been operating without an approved performance management plan to guide its management and oversight efforts after 2008.

In addition, while implementing partners have routinely reported on the progress of USAID-funded programs, USAID did not always approve the performance indicators these partners were using and did not ensure, as its procedures specifically require, that its implementing partners establish targets for each performance indicator.

For example, only two of the seven USAID-funded agricultural programs, which we highlight in our most recently released report, during fiscal year 2009 had targets for all indicators. They actually lacked targets for all indicators as required.

In the absence of consistent application of its existing performance management and evaluation procedures, USAID programs may remain more vulnerable to waste, fraud, and abuse. For example, GAO reported in 2009 that USAID's failure to adhere to its existing policies severely limited its ability to require expenditure documentation on an Afghanistan-related grant that was later associated with findings of alleged criminal actions and mismanagement of U.S. Funds.

To enhance the USAID development assistance programs in Afghanistan we have recommended, among other things, that the administrative USAID take steps to, one, ensure programs have performance indicators and targets; and, two, fully assess and use performance data and evaluations that it has collected or that it will collect to adjust current and future programs and address preservation of institutional knowledge.

USAID has concurred with these recommendation and is in the process of developing a new performance management plan to guide its future efforts. We will continue to monitor and follow up on the implementation of all open GAO recommendations.

This concludes my prepared statement, but before closing I would like to note that the GAO looks forward to assisting the Congress and the administration in its efforts in Afghanistan, and I would be happy to answer any questions at this time.

[The information follows:]

United States Government Accountability Office

GAO

Testimony
Before the Subcommittee on State,
Foreign Operations, and Related
Programs, Committee on Appropriations

For Release on Delivery
Expected at 10:00 a.m. EDT
Thursday, July 15, 2010

AFGHANISTAN DEVELOPMENT

USAID Continues to Face Challenges in Managing and Overseeing U.S. Development Assistance Programs

Statement of Charles Michael Johnson Jr., Director
International Affairs and Trade

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



GAO-10-932T

Madam Chairwoman and Members of the Subcommittee:

I am pleased to be here to discuss oversight of U.S. assistance programs in Afghanistan.

Strengthening the Afghan economy through development assistance efforts is critical to the counterinsurgency strategy and a key part of the U.S. Integrated Civilian-Military Campaign Plan for Afghanistan.¹ Since fiscal year 2002, the U.S. Agency for International Development (USAID) has awarded over \$11.5 billion in support of development assistance programs in Afghanistan.

Since 2003, GAO has issued several reports and testimonies related to U.S. security, governance, and development efforts in Afghanistan. In addition to reviewing program planning and implementation, we have focused on efforts to ensure proper management and oversight of the U.S. investment, which are essential to reducing waste, fraud, and abuse. Over the course of this work, we have identified improvements that were needed, as well as many obstacles that have affected success and should be considered in program management and oversight. While drawing on past work relating to U.S. development efforts in Afghanistan, I will focus much of my testimony today on findings in our most recent report released yesterday on the USAID's management and oversight of its agricultural programs in Afghanistan.²

My statement today will address (1) the challenges the United States faces in managing and overseeing development programs in Afghanistan; and (2) the extent to which USAID has followed its established performance management and evaluation procedures.

¹GAO, *The Strategic Framework for U.S. Efforts in Afghanistan*, GAO-10-655R (Washington, D.C.: June 15, 2010).

²GAO, *Afghanistan Development: Enhancements to Performance Management and Evaluation Efforts Could Improve USAID's Agricultural Programs*, GAO-10-368 (Washington, D.C.: July 14, 2010). We focused our review on the eight USAID agricultural programs that were active between 2007 and 2009 and had total awards greater than \$15 million. These programs represent about 75 percent of all USAID agricultural awards since 2002.

Summary

Various factors challenge U.S. efforts to ensure proper management and oversight of U.S. development efforts in Afghanistan. Among the most significant has been the "high-threat" working environment, the difficulties in preserving institutional knowledge due to the lack of a formal mechanism for retaining and sharing information during staff turnover, and the Afghan government ministries' lack of capacity and corruption challenges. USAID has taken some steps to assess and begin addressing the limited capacity and corruption challenges associated with Afghan ministries. In addition, USAID has established performance management and evaluation procedures for managing and overseeing its assistance programs. These procedures, among other things, require (1) the development of a Mission Performance Management Plan (PMP); (2) the establishment and approval of implementing partner performance indicators and targets; and (3) analyses and use of performance data. Although USAID disseminated alternative monitoring methods for projects in high-threat environments such as Afghanistan, USAID has generally required the same performance management and evaluation procedures in Afghanistan as it does in other countries in which it operates.

USAID has not consistently followed its established performance management and evaluation procedures. There were various areas in which the USAID Mission to Afghanistan (Mission) needed to improve upon. In particular, we found that the Mission had been operating without an approved PMP to guide its management and oversight efforts after 2008. In addition, while implementing partners have routinely reported on the progress of USAID's programs, we found that USAID did not always approve the performance indicators these partners were using, and that USAID did not ensure, as its procedures require, that its implementing partners establish targets for each performance indicator. For example, only 2 of 7 USAID-funded agricultural programs active during fiscal year 2009, included in our review, had targets for all of their indicators. We also found that USAID could improve its assessment and use of performance data submitted by implementing partners or program evaluations to, among other things, help identify strengths or weaknesses of ongoing or completed programs. Moreover, USAID needs to improve documentation of its programmatic decisions and put mechanisms in place for program managers to transfer knowledge to their successors.

In the absence of consistent application of its existing performance management and evaluation procedures, USAID programs are more vulnerable to corruption, waste, fraud, and abuse. We reported in 2009 that USAID's failure to adhere to its existing policies severely limited its ability to require expenditure documentation for Afghanistan-related grants that

were associated with findings of alleged criminal actions and mismanaged funds.³ To enhance the performance management of USAID's development assistance programs in Afghanistan, we have recommended, among other things, that the Administrator of USAID take steps to: (1) ensure programs have performance indicators and targets; (2) fully assess and use program data and evaluations to shape current programs and inform future programs; (3) address preservation of institutional knowledge; and (4) improve guidance for the use and management of USAID contractors. USAID concurred with these recommendations, and identified steps the agency is taking to address them. We will continue to monitor and follow up on the implementation of our recommendations.

The United States Faces Challenges in Managing and Overseeing Programs in Afghanistan

Various factors challenge U.S. efforts to ensure proper management and oversight of U.S. development efforts in Afghanistan. Among the most noteworthy has been the "high-threat" working environment U.S. personnel and others face in Afghanistan, the difficulties in preserving institutional knowledge due in part to a high rate of staff turnover, and the Afghan government's lack of capacity and corruption challenges.

High-Threat Security Environment Impedes Monitoring and Oversight

As we have previously reported, Afghanistan has experienced annual increases in the level of enemy-initiated attacks.⁴ Although the pattern of enemy-initiated attacks remains seasonal, generally peaking from June through September each year and then declining during the winter months, the annual "peak" (high point) and "trough" (low point) for each year have surpassed the peak and trough, respectively, for the preceding year since September 2005. This includes a rise in attacks against coalition forces and civilians, as well as Afghan National Security Forces. The high-threat security environment has challenged USAID's and others' ability to implement assistance programs in Afghanistan, increasing implementation times and costs for projects in nonsecure areas. For example, we found during our review of the U.S. road reconstruction efforts that a key road to the Kajaki dam was terminated after USAID had spent about \$5 million

³GAO, *UN Office for Project Services: Management Reforms Proceeding but Effectiveness Not Assessed, and USAID's Oversight of Grants Has Weaknesses*, GAO-10-168 (Washington, D.C.: Nov. 19, 2009).

⁴GAO, *Afghanistan's Security Environment*, GAO-10-613R (Washington, D.C.: May 5, 2010).

after attacks prevented contractors from working on the project.⁸ In addition, U.S. officials cited poor security as having caused delays, disruptions, and even abandonment of certain reconstruction projects. For example, a project to provide Afghan women jobs in a tailoring business in southwest Afghanistan failed, in part, because of the threat against the female employees.

The high-threat security environment has also limited the movement and ability of U.S. personnel to directly monitor projects. USAID has specifically cited the security environment in Afghanistan as a severe impediment to its ability to directly monitor projects, noting that USAID officials are generally required to travel with armored vehicles and armed escorts to visit projects in much of the country. USAID officials stated that their ability to arrange project visits can become restricted if military forces cannot provide the necessary vehicles or escorts because of other priorities. In 2009, USAID documented site visits for two of the eight programs included in our review (see fig. 1). We have experienced similar restrictions to travel beyond the embassy compound during our visits to Afghanistan.

⁸GAO, *Afghanistan Reconstruction: Progress Made in Constructing Roads, but Assessments for Determining Impact and a Sustainable Maintenance Program Are Needed*, GAO-08-689 (Washington, D.C.: July 8, 2008)

Figure 1: Agricultural Program Site Reports, Calendar Years 2005 to 2009

Program	2005	2006	2007	2008	2009
ADP-Northeast	✓	✓	✓	✓	—
ADP-South	—	✓	—	✓	✓
ADP-East	✓	✓	✓	—	—
Accelerating Sustainable Agriculture Program		—	✓	✓	—
ADP-Southwest				✓	—
Afghanistan Water, Agriculture, and Technology Transfer				—	—
Afghanistan Vouchers for Increased Production in Agriculture				—	—
Incentives Driving Economic Alternatives-North, East, and West					✓

— No USAID site reports

✓ USAID site reports

Program not operational

Source: GAO analysis of USAID documentation.

In the Mission's 2008 and 2009 Federal Managers Financial Integrity Act of 1982 Annual Certifications, the Mission reported its efforts to monitor project implementation in Afghanistan as a significant deficiency. These reports raised concerns that designated USAID staff are "prevented from monitoring project implementation in an adequate manner with the frequency required" and noted that there is a high degree of potential for fraud, waste, and mismanagement of Mission resources. USAID further noted that the deficiency in USAID's efforts to monitor projects will remain unresolved until the security situation in Afghanistan improves and stabilizes. The reports identified several actions to address the limitations to monitor project implementation, including, among others: placement of more staff in the field; use of Afghan staff—who have greater mobility than expatriate staff—to monitor projects; hiring of a contractor to monitor the implementation of construction projects and conduct regular site visits; and collecting of implementing partner video or photographs—including aerial photographs.

USAID's Institutional Knowledge Challenged by High Staff Turnover

Preserving institutional knowledge is vital to ensuring that new Mission personnel are able to effectively manage and build on USAID assistance efforts. We found, however, during our review of USAID's road reconstruction efforts in 2008 and, most recently, our review of USAID's agricultural development program that USAID had not taken steps to mitigate challenges to maintaining institutional knowledge. USAID did not consistently document decisions made. For example, staff working in Afghanistan had no documented assessments for modifications to the largest USAID-funded United Nations Office for Project Services (UNOPS) project in Afghanistan—Rehabilitation of Secondary Roads—even though these modifications increased the scope and budget of the program by more than ten times its original amount.

Furthermore, USAID and other U.S. agencies in Afghanistan lack a sufficient number of acquisition and oversight personnel with experience working in contingency operations. This problem is exacerbated by the lack of mechanisms for retaining and sharing institutional knowledge during transitions of USAID personnel and the rate at which USAID staff turn over, which USAID acknowledged as hampering program design and implementation. In addition, the State Department Office of Inspector General noted in its February 2010 inspection of the U.S. Embassy to Afghanistan and its staff that 1-year assignments, coupled with multiple rest-and-recuperation breaks, limited the development of expertise, contributed to a lack of continuity, and required a higher number of personnel to achieve strategic goals.⁶ The USAID monitoring officials for the eight agricultural programs we focused on during our review of USAID's agricultural development efforts in Afghanistan were in place, on average, 7.5 months (see table 1). Moreover, the length of time that a monitoring official was in place has declined. The two most recently initiated agricultural programs have had monitoring officials in place for an average of only 3 months each.

⁶See United States Department of State and the Broadcasting Board of Governors' Office of Inspector General, *Report of Inspection: Embassy Kabul, Afghanistan*, Report Number ISP-I-10-32A (February 2010).

Table 1: USAID Monitoring Officials by Program, January 2005 to September 2009

Program	Months of monitoring official oversight	Number of monitoring officials	Average months per monitoring official
ADP-South	55	4	14
ADP-Northeast	55	6	9
ADP-East	55	6	9
Afghanistan Water, Agriculture, and Technology Transfer	19	2	9
Accelerating Sustainable Agriculture Program	34	6	6
ADP-Southwest	19	4	5
Afghanistan Vouchers for Increased Production in Agriculture	12	4	3
Incentives Driving Economic Alternatives—North, East, and West	7	2	3

Source: GAO analysis of USAID data.

Note: Numbers may not divide to averages because of rounding.

USAID officials noted that the effectiveness of passing information from one monitoring official to another is dependent on how well the current official has maintained his or her files and what guidance, if any, is left for their successor. USAID officials noted that a lack of documentation and knowledge transfer may have contributed to the loss of institutional knowledge.

We reported in April 2010 that USAID used contractors to help administer its contracts and grants in Afghanistan, in part to address frequent rotations of government personnel and security and logistical concerns.⁷ Functions performed by these contractors included on-site monitoring of other contractors' activities and awarding and administering grants. While relying on contractors to perform such functions can provide benefits, we found that USAID did not always fully address related risks. For example, USAID did not always include a contract clause required by agency policy to address potential conflicts of interest, and USAID contracting officials generally did not ensure enhanced oversight in accordance with federal

⁷GAO, *Contingency Contracting: Improvements Needed in Management of Contractors Supporting Contract and Grant Administration in Iraq and Afghanistan*, GAO-10-357 (Washington, D.C.: Apr. 12, 2010).

regulations for situations in which contractors provided services that closely supported inherently governmental functions.

**Limited Ministerial
Capacity and Corruption
Challenge Development
Efforts**

USAID has increasingly included and emphasized capacity building among its programs to address the government of Afghanistan's lack of capacity to sustain and maintain many of the programs and projects put in place by donors. In 2009, USAID rated the capability of 14 of 19 Afghan ministries and institutions it works with as 1 or 2 on a scale of 5, with 1 representing the need for substantial assistance across all areas and 5 representing the ability to perform without assistance. The Ministry of Agriculture, Irrigation, and Livestock was given a rating of 2—needing technical assistance to perform all but routine functions—while the Ministry for Rural Rehabilitation and Development was given a rating of 4—needing little technical assistance. Although USAID has noted overall improvement among the ministries and institutions in recent years, none was given a rating of 5.

USAID has undertaken some steps to address the Afghan ministries' limited capacity and corruption in Afghanistan by including a capacity-building component in its more recent contracts. In 2009, the U.S. government further emphasized capacity building by pursuing a policy of Afghan-led development, or "Afghanization," to ensure that Afghans lead efforts to secure and develop their country. At the national level, the United States plans to channel more of its assistance through the Afghan government's core budget. At the field level, the United States plans to shift assistance to smaller, more flexible, and faster contract and grant mechanisms to increase decentralized decision making in the field. For example, the U.S. government agricultural strategy stresses the importance of increasing the Ministry of Agriculture, Irrigation, and Livestock's capacity to deliver services through direct budget and technical assistance.

USAID also recognized that, with a move toward direct budget assistance to government ministries, USAID's vulnerability to waste and corruption is anticipated to increase. According to USAID officials, direct budget assistance to the Ministry of Agriculture, Irrigation, and Livestock is dependent on the ability of the ministry to demonstrate the capacity to handle the assistance. These officials noted that an assessment of the Ministry's ability to manage direct budget assistance was being completed. The U.S. Embassy has plans under way to establish a unit at the embassy to receive and program funds on behalf of the Ministry while building the Ministry's capacity to manage the direct budget assistance on its own.

According to the Afghanistan's National Development Strategy, Afghanistan's capacity problems are exacerbated by government corruption, describing it as a significant and growing problem in the country. The causes of corruption in Afghan government ministries, according to the Afghanistan National Development Strategy, can be attributed to, among other things, a lack of institutional capacity in public administration, weak legislative and regulatory frameworks, limited enforcement of laws and regulations, poor and nonmerit-based qualifications of public officials, low salaries of public servants, and a dysfunctional justice sector. Furthermore, the sudden influx of donor money into a system already suffering from poorly regulated procurement practices increases the risk of corruption. In April 2009, USAID published an independent *Assessment of Corruption in Afghanistan* that found that corruption was a significant and growing problem across Afghanistan that undermined security, development, and democracy-building objectives. According to the assessment, pervasive, entrenched, and systemic corruption is at an unprecedented scope. The USAID-sponsored assessment added that Afghanistan has or is developing most of the institutions needed to combat corruption, but these institutions, like the rest of the government, are limited by a lack of capacity, rivalries, and poor integration. The assessment also noted that the Afghan government's apparent unwillingness to pursue and prosecute high-level corruption, an area of particular interest to this Subcommittee, was also reported as particularly problematic. The assessment noted that "substantial USAID assistance [was] already designed to strengthen transparency, accountability, and effectiveness—prime routes to combat corruption."

Additionally, we reported in 2009 that USAID's failure to adhere to its existing policies severely limited its ability to require expenditure documentation for Afghanistan-related grants that were associated with findings of alleged criminal actions and mismanaged funds. Specifically, in 2008, a United Nations procurement taskforce found instances of fraud, embezzlement, conversion of public funds, conflict of interest, and severe mismanagement of USAID-funded the UNOPS projects in Afghanistan, including the \$365.8 million Rehabilitation of Secondary Roads project. The USAID Office of Inspector General also reported in 2008 that UNOPS did not complete projects as claimed and that projects had defects and warranty issues, as well as numerous design errors, neglected repairs, and uninstalled equipment and materials—all of which were billed as complete.

USAID Did Not Consistently Follow Established Performance Management and Evaluation Procedures

USAID's Mission to Afghanistan manages and oversees most U.S. development assistance programs in Afghanistan and relies on implementing partners to carry out its programs. USAID's Automated Directives System (ADS) establishes performance management and evaluation procedures for managing and overseeing its assistance programs. These procedures, among other things, require (1) the development of a Mission Performance Management Plan (PMP); (2) the establishment of performance indicators and targets; and (3) analyses and use of program performance data.

USAID had generally required the same performance management and evaluation procedures in Afghanistan as it does in other countries in which it operates. However, in October 2008, USAID approved new guidance that proposed several alternative monitoring methods for USAID projects in high-threat environments. This guidance was disseminated in December 2009, but the Afghanistan Mission agricultural office staff did not become aware of the guidance until June 2010.

USAID Needs an Approved PMP to Guide Management and Oversight Efforts

The ADS requires USAID officials to complete a Mission PMP for each of its high-level objectives as a tool to manage its performance management and evaluation procedures. While the Afghanistan Mission had developed a PMP in 2006, covering the years 2006, 2007, and 2008, the Afghanistan Mission has operated without a PMP to guide development assistance efforts after 2008. According to USAID, the Mission is in the process of developing a new Mission PMP that will reflect the current Administration's priorities and strategic shift to counterinsurgency. USAID expects the new PMP to be completed by the end of fiscal year 2010. The Mission attributed the delay in creating the new PMP to the process of developing new strategies in different sectors and gaining approval from the Embassy in Afghanistan and from agency headquarters in Washington.

Overall, we found that the 2006-2008 Mission PMP incorporated key planning activities. For example, the PMP identified indicators and established baselines and targets for the high-level objectives for all USAID programs in Afghanistan, including its agricultural programs, which are needed to assess program performance. In addition, the PMP described regular site visits, random data checks, and data quality assessments as the means to be used to verify and validate information collected. The Mission PMP noted that it should enable staff to systematically assess contributions to the Mission's program results and take corrective action when necessary. Further, it noted that indicators, when analyzed in combination with other information, provide data for

program decision making. The 2006-2008 Mission PMP, however, did not include plans for evaluations of the high-level objective that the agricultural programs in our review supported.⁴

**USAID Needs to
Consistently Approve and
Establish Indicators and
Targets**

Under USAID's current policies, implementing partners working on USAID development assistance projects in Afghanistan are required to develop and submit monitoring and evaluation plans that include performance indicators and targets to USAID for approval. However, during our most recent review of USAID's agricultural development programs, we found that USAID did not always approve implementing partner performance indicators and targets. While the implementing partners for the eight agricultural programs we reviewed did submit monitoring and evaluation plans, which generally contained performance indicators and targets, we found that USAID had not always approved these plans and did not consistently require targets to be set for all of indicators as required.⁵ For example, only 2 of 7 active agricultural programs included in our review had set targets for all of their indicators for fiscal year 2009. Figure 2 shows the number of performance indicators with targets by fiscal year for the eight agricultural programs we reviewed that the implementing partner developed and submitted to USAID for approval.

⁴The agricultural programs we reviewed all fell under the objective of supporting a thriving licit economy led by the private sector.

⁵A 2008 USAID Regional Inspector General report found that USAID delayed its approval of ADP-South's 2006 work plan by 9 months, and the delay became a contributing factor to the program not achieving its planned activities for the first year of operation. See USAID Office of Inspector General, *Audit of USAID/Afghanistan's Alternative Development Programs—Southern Region*, Audit Report No. 5-306-08-003-P (Manila, Philippines, Mar. 17, 2008).

Figure 2: Agricultural Programs in Afghanistan, Implementing Partner Indicators with Targets, Fiscal Years 2005 to 2009

Program	Number of indicators with targets (by fiscal year)				
	2005	2006	2007	2008	2009
ADP-Northeast	—	15/ 15	15/ 15	14/ 14	NA
ADP-South	0/ 37	14/ 14	14/ 14	14/ 25 ^a	5/ 25
ADP-East	15/ 18	14/ 14	13/ 13	13/ 14	0/ 14
Accelerating Sustainable Agriculture Program			2/ 13	8/ 13	6/ 6
ADP-Southwest				21/ 21	21/ 21
Afghanistan Water, Agriculture, and Technology Transfer				—	3/ 5
Afghanistan Vouchers for Increased Production in Agriculture					2/ 10
Incentives Driving Economic Alternatives-North, East, and West					16/ 17

— Program operating with no established indicators

Program not operational

N/T Number of indicators with annual target
Total number of indicators

Source: GAO analysis of USAID documentation.

^aIn 2008, ADP-South identified 11 additional indicators.

USAID Could Improve Its Assessment and Use of Performance Data

In addition to collecting performance data and assessing the data's quality, ADS also includes the monitoring activities of analyzing and interpreting performance data in order to make program adjustments, inform higher-level decision making, and resource allocation. We found that while USAID collects implementing partner performance data, or information on targets and results, the agency did not fully analyze and interpret this performance data for the eight agricultural programs we reviewed. Some USAID officials in Afghanistan told us that they reviewed the information reported in implementing partners' quarterly reports in efforts to analyze and interpret a program's performance for the eight programs, although they could not provide any documentation of their efforts to analyze and interpret program performance. Some USAID officials also said that they did not have time to fully review the reports. In addition, in our 2008 report on road reconstruction in Afghanistan, we reported that USAID officials did not collect data for two completed road projects or for any

active road reconstruction projects in a manner to allow them to accurately measure impact. As a result, it is unclear the extent to which USAID uses performance data.

USAID is also required to report results to advance organizational learning and demonstrate USAID's contribution to overall U.S. government foreign assistance goals. While USAID did not fully analyze and interpret program data, the Mission did meet semiannually to examine and document strategic issues and determine whether the results of USAID-supported agricultural activities are contributing to progress toward high-level objectives. The Mission also reported aggregate results in the Foreign Assistance Coordination and Tracking System.¹⁰

ADS also requires USAID to undertake at least one evaluation for each of its high-level objectives, to disseminate the findings of evaluations, and to use evaluation findings to further institutional learning, inform current programs, and shape future planning. In May 2007, USAID initiated an evaluation covering three of the eight agricultural programs in our review—ADP-Northeast, ADP-East, and ADP-South. This evaluation intended to assess the progress toward achieving program objectives and offer recommendations for the coming years. The evaluators found insufficient data to evaluate whether the programs were meeting objectives and targets, and, thus, shifted their methodology to a qualitative review based on interviews and discussions with key individuals. As required, USAID posted the evaluation to its Internet site for dissemination. However, we are uncertain of the extent to which USAID used the 2007 evaluation to adapt current programs and plan future programs. Few staff were able to discuss the evaluation's findings and recommendations and most noted that they were not present when the evaluation of the three programs was completed and, therefore, were not aware of the extent to which changes were made to the programs. With regards to using lessons learned to plan future programs, USAID officials could not provide examples of how programs were modified as a result of the discussion. USAID has planned evaluations for seven of the eight agricultural programs included in our review during fiscal year 2010.

¹⁰The Foreign Assistance Coordination and Tracking System is used to collect foreign assistance planning and reporting data, including plans for implementing current-year appropriated budgets and performance planning and reporting data from the Department of State and USAID.

Madam Chairwoman and members of the subcommittee, this concludes my prepared statement. I will be happy to answer any questions you may have.

Scope and Methodology

To address our objectives, we reviewed past GAO reports and testimonies, examining U.S. efforts in Afghanistan, including reviews of USAID's agricultural and road reconstruction projects. We reviewed U.S. government performance management and evaluation, funding, and reporting documents related to USAID programs in Afghanistan. Our reports and testimonies include analysis of documents and other information from USAID and other U.S. agencies, as well as private contractors and other implementing partners working on U.S.-funded programs in Washington, D.C., and Afghanistan. In Afghanistan, we also met with officials from the United Nations and the governments of Afghanistan and the United Kingdom. We traveled to Afghanistan to meet with U.S. and Afghan officials, implementing partners, and aid recipients to discuss several U.S.-funded projects. We analyzed program budget data provided by USAID to report on program funding, as well as changes in USAID's program monitoring officials over time. We analyzed program data provided by USAID and its implementing partners to track performance against targets over time. We took steps to assess the reliability of the budget and performance and determined they were sufficiently reliable for the purposes of this report. Our work was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. A more detailed description of our scope and methodologies can be found in the reports cited throughout this statement.

GAO Contact and Staff Acknowledgments

For questions regarding this testimony, please contact Charles Michael Johnson Jr., at (202) 512-7331 or johnsoncm@gao.gov. Individuals making key contributions to this statement include: Jeffrey Baldwin-Bott, Thomas Costa, Aniruddha Dasgupta, David Hancock, John Hutton, Hynek Kalkus, Farahnaaz Khakoo, Bruce Kutnick, Anne McDonough-Hughes, and Jim Michels.

GAO's Mission	The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.
Obtaining Copies of GAO Reports and Testimony	The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday afternoon, GAO posts on its Web site newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."
Order by Phone	<p>The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's Web site, http://www.gao.gov/ordering.htm.</p> <p>Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.</p> <p>Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.</p>
To Report Fraud, Waste, and Abuse in Federal Programs	<p>Contact:</p> <p>Web site: www.gao.gov/fraudnet/fraudnet.htm E-mail: fraudnet@gao.gov Automated answering system: (800) 424-5454 or (202) 512-7470</p>
Congressional Relations	Ralph Dawn, Managing Director, dawnr@gao.gov , (202) 512-4400 U.S. Government Accountability Office, 441 G Street NW, Room 7125 Washington, DC 20548
Public Affairs	Chuck Young, Managing Director, youngc1@gao.gov , (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548



Please Print on Recycled Paper

Mrs. LOWEY. Thank you very much for your testimony. As I stated before, we will rotate from side to side, and we look forward to your response.

I want to follow up, if I may, on the London Conference in January, 2010. Donors agreed to provide up to 50 percent of donor assistance directly through Afghan Government mechanisms. In anticipation of the Kabul Conference next week, President Karzai has called on donors to align assistance programs with Afghan priorities and move toward the 50 percent goal.

First of all, can you describe what USAID has done to safeguard funding provided directly through the Ministries of Health and Finance? How much funding is provided through these sources on an annual basis? Does USAID anticipate providing direct support through other government ministries in fiscal year 2010? What process has USAID undertaken to assess the capacity of these ministries to receive direct assistance and what could USAID or other U.S. Government agencies do to increase the capacity of Afghan ministries that are being considered for direct government-to-government support?

Several of you addressed changes that you are recommending in the oversight process. If there is anything else you would like to add to that, please do.

And I would also like to know what oversight role does USAID have in reviewing programs and projects of the Afghan Reconstruction Trust Fund? Can the USAID IG or the SIGAR audit funding channeled through the Trust Fund?

You may have a choice, whoever would like to respond.

ARTF

General FIELDS. Let me first address the ARTF, Afghanistan Reconstruction Trust Fund; and then I would be inclined to yield to my counterpart IG from USAID to discuss more of the details of your questions.

First, we have not conducted an audit per se of the ARTF. The ARTF is administered by the UN; and our mandate, while broad, that I execute does not necessarily include the UN. And its mechanisms. However it is my intent and has been since I have been in this capacity to pursue the U.S. dollar to whatever extent it may be, wherever it may reside. And so we have had a dialogue with the UN; and I believe that if this dialogue continues I feel that we will be permitted, if jointly, to look into the ARTF into which the international community has thus far invested \$900 million, of which approximately \$300 million has been invested by the United States.

We also have conducted an audit of the Control and Audit Office, as I pointed out in my initial statement, and I feel that we can potentially conduct joint audits with the CAO, which is somewhat equivalent to our GAO, and accomplish matters associated with the ARTF and the extent to which those funds are being implemented through whichever institution in Afghanistan.

Mrs. LOWEY. And the remaining, Mr. Gambatesa.

Mr. GAMBATESA. Thank you.

I would like to follow up on the ARTF before I get into the other. As I said in my opening statement that we really don't have any

audit rights in ARTF funds, oversight will be provided by the World Bank or by the audit office in Afghanistan. However—

Mrs. LOWEY. Even though \$300 million of American funds are contributed.

Mr. GAMBATESA. Yes, ma'am. They become fungible once they go into the account, and they basically lose their identity at that point.

Mrs. LOWEY. Is there anything we can do about that?

Mr. GAMBATESA. I am not certain if we can do anything with that specifically. As auditors, all we can do is raise concerns to them and ask them to do something. But we have had dealings with UN organizations before, our international organizations, where they don't really have to listen to us.

But the agency, the USAID, does have some amount of oversight into this process from what I have been told, that they use a monitoring agent, PricewaterhouseCoopers, to check compliance with government internal controls. They participate in project identification and preparation and appraisal, and there is also a methodology they call preferencing where a certain amount of funds that a government can contribute can be preferenced. I don't know all the details, but there are certain ways they can do that, and it is a little bit complicated.

The USAID receives reviews, reports, financial reports, quarterly donor reports, and annual reports basically saying how the funds were expended. So there is some oversight from the agency from the standpoint of quality control or due diligence, I guess is the best way to put it.

Mrs. LOWEY. We will catch Mr. Johnson on the next question, because my time is up. But I would appreciate learning more about that because, as you mentioned, Mr. Fields, we have a responsibility and you are looking at following all the dollars.

General FIELDS. Absolutely.

Mrs. LOWEY. And Norway does have the responsibility for oversight of these funds, and we should be able to ask questions and pursue any trail wherever it leads. I thank you.

Ms. Granger.

Ms. GRANGER. Yes, I want to follow up on that line of questioning that the chairman asked, because I want to focus on the ministries.

The administration has their Afghan First Initiative that we would be sending funds through the Afghanistan ministries. I understand these ministries have to be certified, so I would like to understand more about the process for certification and has the IG's office been involved in that?

Because what I am hearing is there aren't the people—there is a history of corruption. There aren't enough people to do this oversight, and yet we are sending money directly to those Afghan ministries. So I would like some more information about that certification process, how reliable it is, and how that Afghan First is going to proceed.

Mr. JOHNSON. If I may respond to that initially, Ranking Member Granger, GAO actually just initiated some work looking at the U.S. certification process that we are undertaking in terms of certifying Afghanistan ministries, and we think that in addition to that

certification process there needs to be controls in place to allow the U.S. to have access to certain financial information to be able to go in and look at, follow some of the dollars. So we are going to be looking at that as a part of our review in terms of what specific controls or policies or agreements do we have in place.

I do want to note that it is important that the Afghanistan ministries, as we have noted before, have that capacity as a part of building the capacity of the Afghan government is I think our certification process before we provide them with direct funding. It is a part of that whole of government approach that we are taking, and so we are planning to look into that in particular.

Ms. GRANGER. What kind of time frame is that?

Mr. JOHNSON. We just initiated that review.

Ms. GRANGER. How long should that take?

Mr. JOHNSON. On average, we roughly are able to produce things in about 6 months, 6 to 8 months, but if there are immediate needs we can provide you with something sooner than that.

Ms. GRANGER. I would request that you provide this subcommittee with that information as it goes forward with the recommendation. Six to eight months puts us in a real delicate situation with the funding if that process isn't in place and the safeguards aren't there.

Mr. JOHNSON. We will be in a position to provide you with briefings on what we have learned.

Ms. GRANGER. Yes.

Mr. GAMBATESA. We haven't as yet reviewed it, but we intend to review the process of the precertification.

My understanding is that none of the funds or very few of the funds have gone to direct budget support, that thus far the ministries have received funding for specific projects, which obviously increases the accountability because they have to say what they have achieved with the program.

As we mentioned, USAID is providing training and technical assistance when there is a lack of capacity. Oftentimes, they will use a contractor to go in, an accounting firm as such, to go in and assess the capability of the ministry to account for the funding basically, to see if their internal controls and their accounting systems are such that they can actually provide a good sheet to us to determine that, in fact, the funds are being spent appropriately.

My understanding is they have blanket agreements with a number of CPA firms to go in and actually work, and they are local CPA firms, so they would not be U.S. firms.

Ms. GRANGER. So they are local contractors, Afghan contractors, that we are contracting to see if the Afghanistan Government and the ministries can oversee these projects, not the budget toward them but the actual projects, is that right?

Mr. GAMBATESA. More so of the financials, if they have the capacity financially to oversee the funding. That is really on the financial side.

And the other part as far as the performance side would be the training issue of whether the ministry has the proper training and expertise to actually implement the programs.

Ms. GRANGER. And that is also determined by a contractor in most cases, is that right?

Mr. GAMBATESA. I am not certain.

Mr. JOHNSON. If I may also add, based on our preliminary work that we have done so far, with respect to the 50 percent target that has been established, we have noticed that between fiscal year 2002 and 2010 there was roughly about 18.5 percent of our money has been provided for program support to the government of Afghanistan.

Ms. GRANGER. Would you say that again, please?

Mr. JOHNSON. Eighteen point five percent of our USAID's funding has been awarded for program support to the Afghan Government. In fiscal year 2010, specifically, that has jumped up to 51 percent. So I think the direction towards the 50 percent for AID is taking place. But those are all preliminary numbers.

Ms. GRANGER. Thank you.

Mrs. LOWEY. I would like to just submit this letter for the record, a letter from Acting Mission Director Rebecca Black.



USAID | AFGHANISTAN

FROM THE AMERICAN PEOPLE

11 MAR 2010

Mr. Nicholas Krafft
The World Bank
Street #15, House # 19
Wazir Akbar Khan
Kabul, Afghanistan

Dear Mr. Krafft:

We request an increased focus on the fiduciary and governance framework of the Afghanistan Reconstruction Trust Fund (ARTF).

In light of recent GAO reports and recommendations related to oversight and audit access of Public International Organizations (PIO), we are facing increased interest and scrutiny on how to strengthen accountability and/or governance structures. The required financial reporting and audit authority is of particular interest. Further to our recent and ongoing conversations on our latest contribution (Modification 33), we have been unsuccessful in incorporating the following language in our agreement, which reflect the very minimum required by USAID policies and regulations:

AUDIT AND RECORDS (STANDARD) (DEC 2003)

The grantee is required to maintain books, records, documents, and other evidence in accordance with the grantee's usual accounting procedures to sufficiently substantiate charges to the grant. The grantee confirms that this program will be subject to an independent audit in accordance with the Grantee's usual auditing procedures, and agrees to furnish copies of these audit reports to USAID along with such other related information as may be reasonably requested by USAID with respect to questions arising from the audit report.

As we would like to increase our ARTF contribution, we encourage the World Bank to revisit the 2002 legal agreements between donors and to strengthen financial reporting and audit authority language and provide alternative mechanisms which would allow donors additional audit rights. We encourage further dialogue between Headquarters in Washington.

Sincerely,


Rebecca Black
Acting Mission Director

cc: Hugh Riddell, Operations Officer, Afghanistan Reconstruction Trust Fund

Mrs. LOWEY. I am pleased to see that this issue is on the screen of many of the people who are here today.

We do need an increased focus on fiduciary and governance framework of the Afghanistan Reconstruction Trust Fund.

So I think this is an important step in the right direction, and I thank you.

Mr. Jackson.

OPENING REMARKS OF MR. JACKSON

Mr. JACKSON. Thank you, Madam Chair. I thought I beat the clock just before you slammed the gavel. I am grateful.

Again, thank you, Chairwoman Lowey, and let me also welcome our guests to the hearing today.

In perfect candor, I haven't heard very much today that gives me the impression that the United States Government has done and/or is doing everything that it can do to keep taxpayer dollars from being at risk in what almost universally each of you have indicated is the second-most corrupt country in the world, just above Somalia. My confidence today has not been strengthened at all by the testimony of you as witnesses, and that is not to cast an aspersion upon the dedicated nature of your service to our Nation.

But, as General Fields indicated, the high turnover in terms of civilian capacity on our side, the high turnover on the military side of our own efforts in Afghanistan certainly suggest that there is a continuity problem on our side, let alone the expectations that we have for the Afghan officials in monitoring these projects.

I have introduced a bill to help with the reconstruction of Liberia, and one of the key aspects of the bill is to improve the capacity and professionalism of the civilian government.

Improving governance is obviously imperative to providing sustainable development for Afghanistan. It is also a complex task that requires reform in virtually every ministry and every level of government.

I am interested in hearing from all of you what in your judgment are the most pressing priorities for improving Afghanistan governance and what areas of governing are making the most progress? What areas are also the most problematic?

Let me start with General Fields.

General FIELDS. Thank you very much, sir.

First, if you permit me, sir, I wish to correct myself. I earlier mentioned that the UN oversees the ARTF. It is actually the World Bank that oversees the ARTF.

But none of which, of course, precludes what I earlier said, that we will work with whichever entity we need to in order to ensure that the U.S. tax dollar is wisely used.

In terms of what we are doing in reconstruction, let me say that we have spent or are spending \$27 billion or more for the security aspect of reconstruction, \$15 billion over the course of our involvement in Afghanistan since 2002 for governance and development. So, your question, sir, is very important, because we have devoted a lot of money to reconstructing, if you will, the governance sector of Afghanistan.

In terms of a direct answer to your question, I feel that much is under way in addressing governance in Afghanistan, but it is not

nearly where it really needs to be, which is why the issue of corruption is such an agenda item to date.

One failure that I would ask and recommend that we not make should we engage in another situation similar to Afghanistan is that we, I don't feel—and there is little evidence thus far discovered by my auditors and by me personally—to suggest that we started in 2002 building capacity in Afghanistan. It is very difficult to build capacity in a nation as broken as Afghanistan has been and to a large extent still is. And I would encourage that our planners at all levels consider capacity at the forefront of an engagement by the United States into which so much money by the American taxpayer is to be invested.

The justice system is still not adequate. We are working on it, and I feel that the United States Embassy is focusing on that area through training of judges and prosecutors as well as building facilities in which they can carry out their work. But we are not there yet. We have conducted audits in this regard, and we have reported certain recommendations to the Embassy, and we await responses sufficient to confirm that in fact they have turned to—

Mr. JACKSON. General, let me just share with you for the Committee, and then I will conclude, because I know my time has expired.

Fifteen billion dollars in governance and capacity building since 2002, and yet every member of this panel has to confront a Washington Post article that asks the question, is the Afghan Attorney General on our side or not?

Have your investigators found evidence that the Afghan Attorney General impeded investigations and prosecutions; and, if so, is this at the direction of senior Afghan officials?

Before this committee appropriates another dollar, whether or not taxpayer dollars are at risk, fall within the purview of this Committee and the purview of that chairwoman to oversee that this money is being spent adequately. And what I am not hearing is that after \$15 billion on governance that we have there, which means another \$15 billion and another \$15 billion and more articles like this which every one of us have to go back home and explain to a constituent why it is either sufficient or insufficient or why we may need to pull our troops back.

Madam Chair, I yield back the balance of my time.

Mrs. LOWEY. Thank you.

Mr. Lewis.

Mr. LEWIS. Thank you, Madam Chair.

Would each of you kind of give me a yes or a no answer, since we are attempting to measure what has happened to American dollars in Afghanistan, because your advice and counsel you get from people who have expertise in each of your organizations indicate to you that there is serious believability relative to those charges that suggest that huge amounts of cash, American cash, have been leaving Afghanistan with some regularity. And if you do see, if your answer is yes to that question, would you tell us short term, what Jesse Jackson and I can do to see that those dollars go to the people we want to help in the first place and not go to somebody's bank account outside of Afghanistan? As much of a yes or no as possible from your background I would appreciate.

General FIELDS. Yes. Money is leaving Afghanistan, and this has been reported to me by my investigators. There are investigations under way and which were under way prior to the media reporting on this matter, and we are not prepared at this time to give the final details because it is ongoing. But, yes, sir, money is leaving; and this is money that is being declared as the so-called owners of it depart Afghanistan.

Mr. GAMBATESA. Well, I don't think there is any doubt that funds are leaving, the money is leaving, but whether they are USAID funds that have been diverted in some way is something that we don't know. And we have no indication, as I mentioned in my statement, that any USAID funds are being sent out of the country, basically, as I said earlier, because there is not much cash out there.

Mr. LEWIS. If 85 percent of the government's budget comes from our assistance, certainly a "yes" sounds pretty close to being on the money to me.

Mr. GAMBATESA. I am not contradicting you. I am saying that we have no information to show that any USAID funds are being shipped out of the country in pallets.

Mr. LEWIS. So your support people are telling you that you think perhaps the answer is "no" rather than yes?

Mr. GAMBATESA. Well, I think it is more we don't know. But absent positive knowledge to it, and you never want to say never, but we have nothing to indicate that it is for sure. I would say no. Yes.

Mr. LEWIS. GAO?

Mr. JOHNSON. Based on the work we perform, we don't have any specific evidence that money is leaving Afghanistan illegitimately. We have done some work in the past where we were reported on allegations and misuse of U.S. funds that were provided through USAID, but, other than that, we don't have any specific examples of money being flown out of Afghanistan inappropriately.

Mr. LEWIS. Thank you.

Mrs. LOWEY. Just to clarify, before I turn to Mr. Schiff, Mr. Fields, you are saying that you are in the process of conducting an investigation on those allegations, and you were before the media reports revealed the information. We look forward to hearing the results of your examination. Do you have any idea of the time frame?

General FIELDS. Not at this time. This is an investigation that we started really in March. And it was really another investigation that was under way, and a tip through that investigation led us to matters relating to the departure or exodus of money through the airports. I don't know, Madam Chairwoman, when we will have completed this, but I can assure you that we will work this as rapidly as we possibly can.

Mrs. LOWEY. Thank you very much.

Mr. Schiff.

Mr. SCHIFF. Thank you, Madam Chair.

I have a few questions today, and I am going to try to state as quickly as I can to see how many we might get through.

I want to follow up on the chair's question, and maybe we just don't have enough information, but to the degree that money is leaving the country, and I don't know what is worse, the potential that this is U.S. taxpayer money that is leaving the country be-

cause it has been stolen or whether this is U.S. taxpayer dollars or other international donor assistance that has not been stolen but has been taken through the process and is being exported out of the country. Either way, it shows that some in the leadership in Afghanistan have no confidence in the nation's future, and that is I think a real, vital concern for our effort.

But I would be interested to know, to the degree you can talk about it today, if there is money leaving the country, what is the likely source of it and who are the likely players in terms of taking it out of the country?

More broadly, I would like to ask you about our anti-corruption strategy which I am very concerned about. It seems our military is on one timeline, our anti-corruption strategy, our governance building is on an very different timeline which may take years, decades, a generation.

Who is in charge of our anti-corruption strategy? Is there an anti-corruption plan?

My understanding is that the Embassy drafted an anti-corruption strategy but that it has been sitting at the State Department for about a year now; and the only thing that has been released is a corruption reporting guidance which, among other things, established an e-mail address for people to send reports of corruption, corruption.tf@gmail.com, but no one is monitoring the site.

So people are evidently sending e-mail reports of corruption, but there is nobody on the receiving end.

So I would be interested to know, are you familiar with this e-mail address? Do you know if anybody is monitoring it? If you don't know, I would ask you to find out, as well as whatever happened to the anti-corruption strategy.

Do we have adequate personnel working on governance and rule of law? We have had a military surge, we have had a civilian surge, but the civilian surge has been a lot less than the military surge. My understanding is there are three people at the Embassy working on rule of law, two State Department people, one DOD person. Do we have adequate civilian personnel working on this anti-corruption strategy?

So those are the questions that I have, as many as you might be able to get through.

General FIELDS. Well, sir, let me comment on at least a few of them.

First, I want to say that we identified anti-corruption as a missing component to the reconstruction effort in Afghanistan. From the work that we have done, very little if anything had been done prior to about a year ago to address anti-corruption in Afghanistan.

We have thus far conducted two audits, as I mentioned earlier, focusing on the systems that need to be in place in order for anti-corruption to be properly addressed within the structure of the Afghanistan Government; and, therefore, our audits of the Control and Audit Office and the Higher Office of Oversight pertain to this.

You reference, to some extent, the financial oversight and basic capacity of Afghanistan from an institutional standpoint. This is being addressed through the reconstruction effort, but it is one to which I think attention has been too lately provided.

In terms of reconstruction strategy relating to anti-corruption, there is one that has been put in place by the U.S. Embassy. An official, once again, trying to bring some degree of emphasis to this matter, has been put in place to oversee this as a part of the new leadership structure of Afghanistan at the ambassadorial level who will coordinate the development of the rule of law.

Mr. SCHIFF. Can you tell me who that is? Who is that that is in charge of the anti-corruption strategy?

General FIELDS. Newly arrived Ambassador—

Mr. JOHNSON. Ambassador Klim.

Mr. SCHIFF. Are you familiar with the Web site I mentioned?

General FIELDS. No, sir, I am not familiar with that Web site.

Mr. SCHIFF. If you could find out and let us know whether there has been anyone on the receiving end of that, I would be very interested to find out.

General FIELDS. Aye aye, sir.

Mr. JOHNSON. If I could quickly add, there is a key line of effort in the U.S. integrated civ-mil plan that specifically addresses anti-corruption issues. If you look at the civ-mil plan, it actually mentions corruption or anti-corruption issues 37 times in the plan. It is through all alliance efforts with the Department of Defense as well as USAID and the State Department. So the U.S. has focused quite a bit on that in its new strategy going forward.

Mrs. LOWEY. I just want to say to my colleagues that we will have a second or third round. So if you want to vote and come back, we welcome you.

Mr. Crenshaw.

Mr. CRENSHAW. Thank you, Madam Chairman.

I am just sitting here thinking that our goal in Afghanistan is to try to develop a self-sustaining government, and what I hear today is not very encouraging. In fact, it is downright discouraging.

I was there maybe 2 months ago, and we spent a lot of time talking about the security aspect of trying to build a police force and build an army. And that was right after Marja had happened, and that was successful. But immediately when the Afghani army went in, there were all these allegations of corruption, looting. It just seems that the corruption aspect pervades everything that goes on, and somehow we have got to get control of that.

And when I hear you all say, well, we know money is leaving the country, but we really don't know what money it is or whose money it is, it seems to me some how some way the Afghan Government needs to, if they are going to stand up and be self-sustaining, they ought to have some input into this.

But we are not even talking about that. We are talking about the United States dollars going there, and we are not sure where our money goes. And I wonder if the Afghani Government knows where the money goes. Because, ultimately, they are going to be responsible. That is what we want to happen, when we send them money that they use it wisely.

We are having a hard time figuring out just from our standpoint where the money goes. So that is a little bit discouraging in term of trying to build this self-sustaining government.

I just want to say that as a general comment.

But let me just ask you specifically. This whole business about multilateral aid, it seems like we are moving more in that direction. And when we do bilateral aid direct involvement, I hear the USAID person say, we are not sure, we are trying to put it in place, some oversight and accountability; and I think we all applaud that. But when it comes to the multilateral aspect, we seem to have very little oversight and accountability, and yet that is where we are moving. In Haiti, we are moving more toward multilateral business. As I read some of these reports, as much as 75, 85 percent of the money that goes into these multilateral accounts, this reconstruction fund, comes from us. And yet we don't have any oversight. We don't have any accountability.

So my main question is, in a broad sense, if that is the direction we are moving in, what are your ideas about how we can have more accountability and oversight in terms of these multilateral assistance programs? Because if that is where we are going and that is where we are putting all our money and yet we don't have any control over that, that is another big problem.

Could you comment on that? I don't know who would be best, but I think you are all working on that. But I would love to hear how you think we can best deal with that.

General FIELDS. Sir, I will begin and then yield to my colleagues.

But, as I once again mentioned, this office, the Special Inspector General for Afghanistan, we will take any measure that is appropriate, legal, and ethical and so forth to follow the money. And we have been doing that.

The capacity of my office, certainly, has not focused on that part, thus far, even though we have been working in conjunction with it and creating the dialogue with these international entities. But as my capacity increases, we certainly will focus more on that aspect of money.

The other part the equation, I feel, is that our own U.S. needs to work more closely with the international community to put in place rules and agreements, if you will, that will allow the inspectors general and other appropriate oversight entities to peer into these funds such as the Afghanistan Reconstruction Trust Fund and the National Development Program, NDP, for Afghanistan.

Mr. GAMBATESA. Well, I think one important issue, and my colleague has issued a report on the Control and Audit Office in Afghanistan who would have the responsibility to oversee these multi-donor accounts that are being funded for Afghanistan, but that organization is woefully low as far as its experience, as far as its training, as far as its ability to function as an independent agency because it doesn't have the legislative authority that we enjoy.

So one way to do it would be, and I believe that their audit report mentioned this, is to build the capacity of the control and accounting office in Afghanistan to be able to provide the oversight to these multi-donor funds, would be one way to do it.

Mr. JACKSON [presiding]. Let me allow Ms. Lee to ask her questions. There are about 2 minutes left in this vote.

Ms. LEE. Thank you very much, Mr. Chairman.

Welcome. This has been a very important panel, and thank you very much for your testimony.

A couple of things. I think my question should be directed to General Fields.

There was a New York Times article June 6th that cites Afghan and NATO officials contended that some security contractors or that companies at least have been charged with defending U.S. and NATO interests. They funneled money directly to the Taliban not to attack convoys or other targets, and in at least one case there is suspicion of a contractor compelling the Taliban to attack NATO forces in order to delegitimize competitors.

Do you know about this? As we continue to increase our footprint in Afghanistan and spend billions of dollars to support this war, which, of course, I opposed from day one, are we entrenching a corruption economy which overshadows our work to foster development, if those reports are accurate?

And, secondly, let me just ask you, I think earlier you reported that about 40 percent of your investigations involve procurement fraud. Is that accurate? In your experience, what recourse has been taken against those contractors? Has anyone gone to jail or prison for trying to defraud the U.S. Government?

General FIELDS. Thank you very much.

We have investigations under way in a number of areas. Fraud is one of the principal ones that we have ongoing and have investigated in the past.

Yes, our investigations working in conjunction with other Federal agencies have resulted in either the recovery of money or in conjunction therewith of individuals who were found guilty having actually gone to jail. So there have been results of our efforts in that regard.

Regarding the private security contracts and matters relating to money somehow finding its way to the Taliban and ultimately used perhaps against our U.S. interests, I am aware of these matters, but we have not investigated these matters to the full measure, and so I am not prepared to answer at the depth and breadth of your question that otherwise I would like to at this time.

Ms. LEE. Thank you very much.

Are you going to investigate these matters? Because it seems to me that if this investigation shows that these allegations are accurate, then we really do need to look at how we are fueling or funding this type of corruption economy if we just let that pass, if these reports are true.

General FIELDS. Yes, we do plan to investigate those matters that we feel fall within our purview. And to some extent, we have at least audit work under way examining the process by which private security contractors arrive at their contracts and the mechanisms through which these contracts are executed in support of our reconstruction effort.

I can assure you that as these matters continue to develop and I continue to build my investigator capacity we will focus on these matters.

Ms. LEE. Thank you.

And then if you find that the money has been funneled to the Taliban, who takes that on next? What is the next step in the process?

General FIELDS. Well, our process works like this. If we take on this particular investigation—this is a hypothetical—we conduct it to its full measure, just as any criminal investigation would be conducted in the FBI and other Federal agencies within our own community. We will determine who the alleged guilty folks are. We hand off those matters in the case of those relating to the U.S. justice system to the Department of Justice; and then we follow up, of course, to ensure that those matters are carried to the full measure. But once we hand them off, they are essentially in the hands of the Department of Justice.

In the case of Afghanistan, it is another situation. There are not rules currently in place that very easily transfer an investigation from the hands of a U.S. entity to the Afghans with the assurance that the appropriate measures will follow and the guilty parties are brought to justice.

Ms. LEE. Thank you very much, Mr. Chairman.

Mr. JACKSON. Mr. Rothman.

Mr. ROTHMAN. Thank you, Mr. Chairman. Thank you, gentlemen, for appearing here today and thank you for your careers of public service.

I would like to start with the General, please.

If your written testimony, I believe it says that from fiscal year 2002 through fiscal year 2010, excluding the supplemental, \$51.5 billion have been spent to rebuild Afghanistan, 51.5 billion. Just doing a simple division, it comes to, I think, about \$6.5 billion a year, on average. Has the amount of money to rebuild Afghanistan, using your words, has that increased? Has it remained flat? What has it been like in the 2 years, General, that you have been in charge?

General FIELDS. The amount of money really has increased during the 2 years that I have been in this office. But going really back to just a bit beyond that, I believe we began to seriously invest in Afghanistan around 2005.

Mr. ROTHMAN. Sir, in the last 2 years, what would you say the number is? And I don't mean just money for reconstruction. I mean, as you divided it, it appeared to me, money for governance, and I forget the other term you used.

General FIELDS. Development was the other term.

Mr. ROTHMAN. Governance and development and then you ascribed the other half or other portion to security to back up the governance and the other item.

But to me, since one requires the other, both halves should be considered in one total sum as the expenditure we are making for reconstruction. So in the last 2 years, sir, what is the average of those per year?

General FIELDS. Yes, sir. I don't know if I have an average for each of those individual sectors.

Mr. ROTHMAN. For reconstruction, sir.

General FIELDS. Yes, sir. Exactly. But just to preface my comment here, there are three areas which define reconstruction in Afghanistan: security, governance, and development.

Mr. ROTHMAN. I understand. I only have 5 minutes. So could you give me the answer, please? I understand what is within your defi-

dition of reconstruction. For the total amount of reconstruction, including those three, what is the dollar figure, please?

General FIELDS. Yes, sir. When I took over this position, the figure of expenditure in Afghanistan between 2002 and 2008 was at \$32 million. That figure is now—I am sorry, \$32 billion. That figure is now \$51.5 billion. So within that 2-year period, we have—

Mr. ROTHMAN. It is about \$10 billion a year, sir, is that the answer?

General FIELDS. Yes, sir.

Mr. ROTHMAN. Okay, so \$10 billion a year.

You talked about your dismay, and I share it with you, that there was lack of visibility of the money we have given, no integrated system. And it has been several years now since the new team is on board, which disappoints me that we still don't have an integrated system. The high turnover of staff, which no one has apprised me that that is going to be changing, that there will be more permanence to the staff. So that is \$10 billion a year. How many more years do you think it will take before Afghanistan will be reconstructed to the extent the administration is requiring before we can cease these kinds of expenditures of \$10 billion a year?

General FIELDS. Sir, I do not have an answer for your question.

Mr. ROTHMAN. Will it be 3 years, General?

General FIELDS. Yes, sir. I will tell you, sir, because we did not begin with the capacity building effort in Afghanistan back in 2002—

Mr. ROTHMAN. I heard that, sir.

General FIELDS. We are just turning 2 on that regard. It is going to take another 10 years.

Mr. ROTHMAN. So 10 years. Would you say at a minimum of \$10 billion a year for reconstruction or would it be greater than \$10 billion a year?

General FIELDS. I don't know the answer there either, sir. However, we can maximize the money that we are currently providing for reconstruction in Afghanistan by better oversight and better accountability.

Mr. ROTHMAN. Would you guess it would be a lot less than \$10 billion a year?

General FIELDS. I will tell you, sir, it could be a lot less than \$10 billion a year.

Mr. ROTHMAN. Do you expect that within the next 5 years to be less than \$10 billion a year?

General FIELDS. I don't know, sir. But—

Mr. ROTHMAN. If you had to guess.

General FIELDS. I would guess it could be, yes, sir.

Mr. ROTHMAN. It could be.

General FIELDS. If we work harder at what we do and maximize the dollars that we are providing to Afghanistan.

Mr. ROTHMAN. Less than \$5 billion?

General FIELDS. Again, sir, I must say that—

Mr. ROTHMAN. General, my point is I am trying to get my head around this for my constituents who say, \$50 billion over 8 years, we could have used that here in the United States of America. You said that for the first 6 years before your appointment that money was not spent wisely, not accounted for, and you are hoping to do

things better but foresee 10 more years of billions of dollars, if not tens or \$50 billion more of an investment. And I am wondering, do you think 10 years will do it? Can you guarantee that?

General FIELDS. I cannot guarantee it, sir, but I will tell you that I think, given what I have seen so far, it is going to take another no less than 5 to 10 years to move Afghanistan really where we feel it needs to be for us to seriously begin to disconnect our support for Afghanistan.

Mr. ROTHMAN. Given the present policy objectives?

General FIELDS. Well, as I understand the President's policy objectives, it is to commence some level of disengagement in terms of—

Mr. ROTHMAN. No, I mean what we want Afghanistan to look like—I am sorry, Mr. Chairman—what we want it to look like. If we change our notion of what we want Afghanistan to look like, then we may be able to spend less and get out faster.

I yield back. I know you have given me extra time. Thank you, Mr. Chairman.

Mr. JACKSON. The second round of questioning. Ms. Granger.

Ms. GRANGER. Excuse me—I had to go vote—if this was answered, but I don't believe it is. You were talking about a corruption plan, a plan to eliminate the corruption or at least approach to a reasonable extent corruption that is a plan that is sitting on someone's desk, right? So we have a plan that is sitting on somebody's desk. We are dealing with a country that has had a tradition of corruption, but we are saying Afghan first. That is this administration's plan.

So building capacity is one thing, but, right now, we are talking about enormous amounts of money. And what we are doing, it sounds to me, is we are auditing as it is done to say, well, was it done wrong, instead of putting a plan together to say, how do we ensure that whatever amount of money that we send or whatever we do with these programs in building capacity that there is an oversight that is reasonable.

Who in the opinion of the three of you should be—who is the most capable of that oversight? If you are saying Afghans first, then we are saying Afghan auditors. Are there auditors there that are trained and that are capable of doing that? Who should be doing this?

General FIELDS. I think it should take place on multiple dimensions.

First, the very officers represented at this table in terms of their carrying out their interest of the United States, I think we should be leading that effort. And, thus far, with my office being a new office stood up only in 2008 that should have been stood up in 2002, I appreciate the funding that you have provided to me to get my work done. And so we will continue to build our staff to increase our capacity to answer your mail, Representative Granger, in that regard.

But, at the same time, we are also peering into the institutions of Afghanistan. Again, let me go back to the Office of Comptroller Audit Office or the Auditor General's Office of Afghanistan, the High Office of Oversight. Those institutions must be built to their maximum extent so that they can really lead this effort. So it is

the synergy that should result from the Afghans doing their part and certainly the United States doing ours.

Mr. GAMBATESA. One area that I have been told could be done is the pay for civil servants in Afghanistan is very low; and increasing their pay could, in fact, eliminate some of the problems of taking bribes, things like that.

The other thing that I have been told is that the Afghan National Police started getting their pay through electronic means, and apparently their paychecks or their cash would be skimmed by their bosses, things like that that went on.

So those two things could help increase or decrease the amount of corruption, at least at a certain level.

Mr. JOHNSON. I would like to add that it is hearings like this that help ensure oversight of our efforts in Afghanistan and continuing these types of hearings as well as the work that we all do at this table.

But, more importantly, the administration has to move forward, given its assessments that it has done of corruption in Afghanistan, and actually put controls in place, tie those controls to our investment of our U.S. dollars.

But, as General Fields noted it is going to take a concerted effort on the part of the Afghan Government to move forward and to take some action with respect to corruption in particular.

Ms. GRANGER. There is also something called a "civilian uplift" that this Congress has provided funds to triple the civilian staff in Afghanistan since January of 2009. They are in Kabul. They are out in the field. Is this enormous, a tripling of the staff, or do they have the right skill sets? Are they in place to do oversight within the country?

General FIELDS. We don't know at this time, and that is why my office, SIGAR, is conducting an audit that is already under way. We are working with the State Department, the Department of Justice, Treasury, Health and Human Services, and Homeland Security to define whether or not—and certainly the Department of Agriculture—to define whether or not the quantity and quality of civilians being infused into Afghanistan are of the appropriate number to ensure that our strategic interests are carried out.

We are also going to determine the extent to which, once these women and men arrive in Afghanistan, are they all hurdled in Kabul in a safe environment or are they out in the interior of Afghanistan working with the districts, the provinces, the provincial reconstruction teams, the councils and so forth to carry out their respective work?

Mr. JOHNSON. If I may add, GAO has a similar engagement under way, and we have coordinated with our SIGAR counterparts as well, looking specifically at the civilian uplift in Afghanistan.

One thing we are going to focus specifically on is the requirements that have been identified to see if a part of those requirements include making sure folks who are going to be overseeing U.S. programs are going to be a part of the civilian surge, not just those implementing the program but those who are going to be ensuring proper oversight and management of our programs, that those individuals are in place as well.

Mr. GAMBATESA. As General Fields mentioned, that if the new people coming in don't have the ability to get out in the field, then the effectiveness will be minimized.

Also, there is a question of whether they—I am speaking for USAID now—whether the individuals who are in this surge have the requisite skills and training to take on these positions.

I think what we have seen, and this has gone on so long for a number of years, that many of the staff are going back for the second and third time, and I guess thus far for the most part it has been fairly voluntary. I don't think the agency—don't hold me to that; I am not positive—but I don't think they have had to assign someone without their volunteering.

I think what they are seeing is they have a lot of new individuals coming in who may be not as experienced as others, and I think what you are seeing is what we are seeing is a lot of the newer people who are less experienced volunteering to go to places like Afghanistan and Iraq and Pakistan who don't really have as much experience as the others.

I think there is going to be a burnout factor eventually of people going year after year. Eventually, they are going to come back around and have to go time and time again. I think that is going to be a problem in the future.

Ms. GRANGER. Thank you, Madam Chair.

Mrs. LOWEY [presiding]. Mr. Moran.

Mr. MORAN. I thank you, Madam Chairwoman.

Let me first address USAID Inspector General.

You found this year that it was a 5-year program to build 1,400 structures and, in fact, the structures that were built were defective. They need to be rebuilt due to a lack of engineering capacity and technical skills. This is not dissimilar from what you found 5 years ago, that the completion of road building projects were insufficient, inadequate. Basically, the construction was faulty and had to be redone; and AID-built schools and administrative buildings were either not completed or not even usable.

Part of the problem is that we apparently are contracting with people with very limited capability to carry out the projects that they are assigned and paid to carry out. Personally, I feel it is very important that we give the Afghan people and their own indigenous companies an opportunity to compete and to construct the stuff themselves. On the other hand, if we are paying for it, it needs to be the kind of structure that will last and doesn't have to be rebuilt.

But a lot of the contracts are going to non-U.S. firms that are simply exploiting the situation, making enormous sums of money and, in fact, are able to win competitive bids because they act in an uncompetitive field where they don't have to pay the kind of taxes that U.S. firms have to pay. They don't have the personnel standards, whether it be safety or overtime or insurance or any of that stuff. And so their costs are substantially less, plus the fact that they don't hire the qualified personnel that come at some price. If they are hiring unskilled people to do skilled labor, well, obviously, their costs are going to be less. And what is happening is they are making enormous profit margins is what I understand.

One of the things we have done is to give a preference to firms so that more professional, competent, dependable firms can get this work done. We did that in other areas. We did that in Iraq, for example, finally. I think it was a 20 percent preference. We don't do that in the CENTCOM area now I understand. Do you think that would be a good idea?

Mr. GAMBATESA. I am sorry. As far as CENTCOM—

Mr. MORAN. Central Command area, that would include Afghanistan.

Mr. GAMBATESA. So you are not talking military. You are talking civilian.

Mr. MORAN. Right, I am just talking about a regional, an area, and that seemed to be the best. Because that is why we are there. Because it is part of CENTCOM's responsibility. We are there for a military purpose, unfortunately, more than an economic development purpose.

But I am wondering whether USAID thinks that that would be a good idea to take that into consideration. We are paying firms that aren't getting the work done. We are paying them much more than they are worth, frankly, given the quality of the workmanship.

Mr. GAMBATESA. I think the strategy of the administration or the government is to develop the capabilities of indigenous organizations, and so I think that is the reason that they have done that through local subcontractors. But I am not certain of the question, sir.

Mr. MORAN. If we want the work done, sometimes you need to hire people that have experience in doing the work with a certain skill set. That skill set comes at a price. It is impossible for many firms with that skill set to competitively bid these projects if they are bidding against firms that don't have experienced engineers, that don't have a record of quality performance, that don't have to pay taxes or abide by the normal rules that we apply to our contractors. And so what we did, finally, in Iraq to get quality product, and we have done it in many other places, is to give what is called a preference. Basically, it came to a 20 percent preference. If you can show that you can do the work for 20 percent or less money over and above what less qualified contractors are doing, then you can still compete.

Would you consider that to be some reasonable approach?

Mr. GAMBATESA. I think so. But, as I said earlier, I am not certain that the administration is going in that direction, but I agree.

Mr. MORAN. I know they are not. But sometimes they go in the direction that is pointed out through oversight reports that this may be a recommendation. Part of your job responsibility is to—when you find problems, you recommend solutions, don't you?

Mr. GAMBATESA. Yes, sir.

Mr. MORAN. And the fact is we are getting an enormous amount of deficient structures and roads and infrastructure that is built. And I grant we need to be developing the capability of the Afghan people. But what is happening is all we are doing is developing the wealth of the elite who know enough to bid on these contracts, and then they hire people who are unskilled, they do a slipshod job that has to be rebuilt, they take the money, and a lot of that money is

the money that Chairwoman Lowey is pointing out is going out of the country.

A hell of a lot is in this Sherpur district, where if you walk into the community you see these mansions; and many of these people that own these mansions are the very people that are making these contracts and taking enormous profit margins off the top because they represent the very small sliver of educated, savvy people who are wheelers and dealers and who we will trust to engage in contracts with us.

So something has to be done. Something has to be changed.

Mr. GAMBATESA. I don't disagree with you. The only recourse that USAID would have is through the prime contractor to recover funding, and we have done that in some cases where we sent bills of collection to subcontractors who have not performed where the agency has recovered funding that way. But I agree that certainly the——

Mr. MORAN. The construction work that we are paying for is miserable in too many cases.

Madam Chairman, I would just like to ask these members—and it is a yes-or-no answer—are you aware that in order to deliver fuel and supplies in many parts of Afghanistan we are paying the Taliban personnel for safe passage? Are you aware of that? Yes or no.

Mr. GAMBATESA. I have heard of it, yes.

Mr. MORAN. You have heard that.

Mr. JOHNSON. Same thing, we have heard that, but we don't have the evidence.

General FIELDS. Same here, sir. I have heard of it.

Mr. MORAN. You have heard it, but you have no direct evidence?

General FIELDS. That is correct, sir.

Mr. MORAN. Madam Chairwoman, we have direct evidence. We are partially financing the Taliban to get safe passage of our materials, particularly fuel, to where we need it to go.

Mrs. LOWEY. I would just like to say to the panel and to Mr. Moran before I turn to Mr. Kirk, the purpose of this hearing, which encouraged by the State Department, is as we move forward to support our strategy to support your work and make the improvements and the changes that are necessary so we can safeguard taxpayer dollars and also focus on our mission. So I thank you.

Mr. Kirk.

Mr. KIRK. Thank you, Madam Chair. I want to thank you very much for holding the hearing.

I want to say that in my view, right now, our key objective in Afghanistan for the next couple of months is the success of General Petraeus' operation in Kandahar; and I want to make sure that we are moving this committee and our policy forward to make that Kandahar operation a success.

I note that Republicans on the committee sent a letter to the chair on July 7th wanting Ambassador Eikenberry to testify before us via teleconference. I think he is our critical State Department National Security Memorandum 32 man on the ground, and I hope the committee is able to hear from him.

Mrs. LOWEY. If I can interrupt for just a moment, did you get a copy of the response I sent to the letter?

Mr. KIRK. I haven't. I hope it was yes.

Mrs. LOWEY. Well, the letter made some other points, too; and I hope you get a copy. Otherwise, we will send it to you.

I have been in touch with Ambassador Eikenberry, and I also have been in touch with the Secretary of State and others, and we are trying to make all this happen.

Mr. KIRK. Right.

Last month, the DOD set up Task Force 2010 to ensure funds spent by coalition forces are achieving their intended purpose. One aspect will be a particular focus on the flow of dollars to the subcontractor level. For example, there has been a concern about the Sherzi contractors or the Ahmed Wali contractors, many different entities which may or may not be controlled by them.

My understanding is State and USAID are not part of Task Force 2010, but the IGs and GAO have raised questions about similar problems that may exist in the contracting and grant process. In particular, one of the USAID contractors, one of their largest, is called Development Associates International, DAI, and they fired 10 staff on June 16th because of allegations of soliciting kickbacks. Do you have any information on why State and USAID are not part of Task Force 2010, and do you think they should participate?

Mr. GAMBATESA. My understanding is they are part of Task Force 2010. I didn't attend the briefing, but apparently a handout was given that shows USAID on the chart here. So I am assuming they are.

Mr. KIRK. Good.

On this tracking of funds—and this is both for General Fields and you—is there a way to track subcontractors and subgrantees? Because especially on the DOD side we have a large number of construction or security companies that may or may not actually be owned by the same guy, Sherzi and Karzai being the ones in the south.

Do you yet have a wiring diagram of all of these various companies and who actually owns them?

General FIELDS. SIGAR does not, sir, but we have had under way for quite some time and we are pretty close to reporting out a complete assessment of the contracting situation in Afghanistan.

We don't know, for example, the United States—at least SIGAR doesn't know and no one has been thus far able to tell us how many contractors we have in Afghanistan. So we are doing that by way of an audit on which we will report out in the near term.

Mr. KIRK. And will that audit also include who actually owns and controls these entities? Because while it seems like they have a number of names, there has been talk that maybe a whole bunch of them are just controlled by one or the other family.

General FIELDS. Sir, I am inclined to say that this audit will reveal some of that information.

But the contracting network in Afghanistan is a very complicated one, particularly given the cascading nature of prime to other subordinates or subcontractors. But I am inclined to say, sir, that our investigation and our audit will reveal some of that which may bring light to your question.

Mr. KIRK. My last question. I have been very involved and this committee has assisted me in looking at the problem of electrical

power for Kandahar. We have a severe military constraint on delivering electricity generated by the Kajaki Dam all the way to Kandahar. And my understanding—correct me if I am wrong—is the British have largely given up on this mission and the United States has not taken up this mission of actually getting Kajaki electricity to Kandahar.

The New York Times seems to have reported General Petraeus has backed the Kajaki power project, and so he is going to be using a substantial amount of SERP funds to make this happen so at least Kandahar can generate electrical power.

Have you seen the Wall Street Journal reports that, of what Kajaki power is being generated, it is being delivered to districts controlled by the Taliban and the Taliban actually collects the payment for the Kajaki electricity?

General FIELDS. Yes, sir, I have read and I have an appreciation for that article. I do not know the depth and breadth of the extent to which the electricity is, in fact, being siphoned off or distributed by way of Taliban.

I will tell you that I have been to Kajaki. It is one of the major generating energy networks of Afghanistan. It is a very dangerous place. They have improved it since I was there about a year ago. It is now doubled in output, as acknowledged in the article. There are three generators there, two operational, as I am being informed, but the other is in peril right now and no clear way ahead, and I trust that General Petraeus and others might turn to to fulfill this engagement.

Mr. KIRK. My hope is after Kandahar. But it might be a good line of inquiry, because the Wall Street Journal has highlighted this, an estimate of how much money the Taliban is collecting from electricity generated from this very USAID project.

General FIELDS. Yes, sir.

Mr. KIRK. Thank you, Madam Chair.

Mrs. LOWEY. Well, before I ask another question, I just want to thank the gentleman for bringing up this issue.

It is my understanding that the reason they have not been able to continue work on the Kajaki Dam is because of security issues; and, therefore, General Petraeus has gotten two additional generators to provide electricity so they can accomplish the mission but continues to support the efforts if and when they can work on it.

But I would suggest that there are important allegations in the Wall Street Journal article and we would all appreciate additional work to get to the bottom of it. I think this is an important issue, and we look forward to continuing the discussion.

Thank you.

Mr. MORAN. Would the gentlelady yield for a moment?

Mrs. LOWEY. I would be happy to.

Mr. MORAN. It is relevant to this.

I wonder if there was to be further investigation in this area of basically our supporting the Taliban indirectly if they might also look at the money that is going to the Taliban just for safe passage of fuel and supplies.

Mrs. LOWEY. Absolutely. And I would say to Mr. Moran it is my understanding that—and Mr. Kirk is probably aware of this—there was a lively discussion between USAID and Defense, between

USAID and probably McChrystal and now Petraeus, as to whether to provide those additional generators. Because they were concerned about exactly what you are saying would happen, the electricity would be siphoned off by the Taliban.

So I think a decision was made that they had to do the electricity even though some of the power would be siphoned off from by the Taliban, and this is the concern with the Kajaki Dam as well.

Mr. KIRK. Would the gentlelady yield? It is important that we are talking about two separate projects. Kajaki Dam is in Helmand Province, and the problem is the power can't get to Kandahar Province.

Mrs. LOWEY. But if you cut it off you would lose the 15 percent power that you are already getting from the Kajaki Dam. So the question is, can you increase the power at the Kajaki Dam? But security problems, as I understand it, have been preventing that; and, therefore, General Petraeus made his decision to back the new project.

Mr. KIRK. That is exactly right.

Mrs. LOWEY. So, obviously, we are coming to a close. I would like to add some additional questions, but I am hoping that we can continue this dialogue. And we will certainly have representatives from State to continue the dialogue in the following weeks and have additional briefings. But I am sure, given the work that you are currently doing, you are very much aware of all the challenges.

I would like to close.

I would like to make a couple of points.

First of all, there was an issue before on multilateral funds. And we know that multilateral funds have been an issue, as Mr. Fields has said, for many years. And based on these concerns, the ARTF has multiple layers of auditing, I want to clarify that, some done by the World Bank itself, others done by private accounting firms led by the Norwegians in this case, and USAID also has the ability to audit projects and ministries funded by the ARTF and I expect USAID and USAID's IG to do additional programmatic and financial audits of this sort.

I would just like to say, Mr. Gambatesa, there have been some concerns about the dialogue we had previously and if you can clarify that in follow-up briefings. But USAID does have the authority, based upon the information I have, and the ability to audit projects and ministries funded by the ARTF, and I expect that USAID will do additional programmatic and financial audits of this sort.

If we are spending hundreds of millions of dollars as our contribution to ARTF, then we must have the ability to audit. We do have the ability to audit, and I would like some additional clarification of what we have audited, and what we intend to audit. If we are going to increase our contributions, this Committee is not going to be too happy if we don't know that these dollars are being audited.

So why don't I go to Ms. Granger next for an additional question, and then I have—do you have an additional question, Mr. Moran?

Mr. MORAN. No, I am fine. I think we have made our points. Thank you, Madam Chairwoman.

Mrs. LOWEY. Thank you.

Ms. Granger, I have a final question.

Ms. GRANGER. I have one question.

State and USAID have unique personnel structures in Washington and then in the field. And, for example, there are two additional State Department officials serving with the rank of ambassador for development and rule of law activities. This is in addition to the USAID mission director. So in Washington we have Ambassador Holbrooke's office at State and a Task Force at USAID that is in the process of transforming into a permanent Afghanistan/Pakistan office. So when we are talking about anti-corruption, the anti-corruption efforts are addressed by both of those agencies and then several other agencies.

My question is, with so many actors in this, isn't there a risk of getting mired down in passing the buck or that some of the issues that really we are coming back to over and over about anti-corruption, who is responsible? And how are we going to oversee this as we move into Afghanistan and, as you said, do things that have not been done before?

General FIELDS. First, I am pleased that the Embassy, in conjunction with other communities, has in fact focused on the anti-corruption issue. While I say there is a plan, I am really saying that there is a strategy that is under way. The refinement of that plan I feel under the leadership of the Ambassador, who is now overseeing that subset of the implementation, I think that will help lead to better answer some of your concerns.

I might also point out that GAO published a report recently that addressed a number of strategies and programs that are being executed by the United States and international community in Afghanistan. My question would be, to what extent are those programs coordinated of which anti-corruption I am confident would be a subset? And we will look into those matters and report accordingly.

Mrs. LOWEY. Thank you very much.

And I just want to say, in closing, I am very glad that the Defense Department and Mr. Moran, we are fortunate to have him here as a member of both committees, because he offers a wealth of information. And we are counting on both the Defense Department and USAID to look carefully at where our tax dollar money is going. And I appreciate that.

As a final question, I would like you to tell us where you believe there has been progress made with U.S. assistance funding, what are the most significant gaps, where do you believe programs must be scaled up if we are going to see success in Afghanistan and do additional programmatic and financial audits of this sort? Are you planning them? Where are they going?

We hear of programs that are extremely successful, both on the civilian side and the military side. Both the civilian and military side have to safeguard our taxpayer dollars. Perhaps you can share with us some of the changes that have been made—and I would expect each of you respond—some of the changes that have been made. What is posited? If we are going to see success, where do you believe programs must be scaled up and what additional steps should we be taking?

Mr. JOHNSON. I will take the first stab at that.

The one area that we have reported on that we have seen progress in is the fact that the U.S. Government now has identified a specific strategy for Afghanistan and has developed an integrated civilian military coordinated plan for Afghanistan, something that didn't exist before, to help guide our efforts in Afghan. So we were quite pleased—

Mrs. LOWEY. It didn't exist since we were there in 2002?

Mr. JOHNSON. On multiple occasions we requested those documents, and they were never able to be produced by the—previously. But we were quite pleased to see that those things are now in place to help guide our efforts and that there is an ongoing effort to continue to update those and to work in a coordinated fashion among our various different elements of national power in the U.S. Government to do that.

I would say that the one area that I think needs to be scaled up more so, and this hearing in particular addresses that, is the issue of Afghan Government capacity to address corruption issues in particular and to make sure that we have controls in place over all the money and the investment we are putting in Afghanistan.

In terms of our plans going forward, as I noted earlier, GAO has initiated a review looking at what we are doing to certify the Afghan ministries and also look at what we are doing to make sure the money that we may be giving directly to the Afghan Government, if it goes in that direction, has proper controls in place, that we are building in those controls. So we are looking at that in particular.

Mrs. LOWEY. Thank you.

Mr. GAMBATESA. Well, I believe I mentioned earlier that for USAID they really need to increase the number of personnel in-country, the properly trained staff persons in-country to oversee these programs. I have discussed this with Administrator Shaw, and he is committed to increased oversight and monitoring the evaluation. I am sure when he testifies next week or the following week, whenever it is, he will basically talk about some of that.

Again, I mentioned the direct assistance issues. I think that if the direct assistance to Afghanistan is in the form of specific projects, we have much better oversight, the agency has much better oversight, rather than direct budget support.

The other issue I mentioned is in this contracting issue of subcontracting and too many subcontractors and you lose control when you have subs of subs of subs and you get to the point where the prime has really no idea of what this third sub down the road is doing, and I think that is the other thing we should try to limit.

My staff tells me that there has been improvement, that there has been some progress, and we are certainly not there yet. But I think it is improving to a small degree.

Mrs. LOWEY. Mr. Fields.

General FIELDS. Thank you.

The two that I will address, one, I think the civilian surge that is currently under way is a good idea. During my most recent visit to Afghanistan, which was in May, I have seen evidence really of the civilian surge actually taking hold. We are not there with appropriate numbers, we are not there yet with the distribution of those civilians, but our audit work will bear this out.

The other point, as I have emphasized earlier, if we are concerned now about anti-corruption, we need to focus money in that direction. I think it is shameful, really, that over the course of our investment of \$51.5 billion we have invested, the United States, only \$1 million towards the support to the High Office of Oversight. This needs to change, and that is a recommendation I would make to this committee by way of your appropriations capacity. The Control and Audit Office and the High Office of Oversight, they need capacity, and they need money with which to build it.

Thank you.

Mrs. LOWEY. Well, I thank you very much.

I have one last question. In hearing about and having had a brief discussion about Task Force 2010, do you expect there will be any coordination between the civilian and military efforts? Often they are working in the same communities on the same issues. One of my concerns since I have been in the government is the lack of coordination. You can be in any country, not just Afghanistan, and people are operating in their own I call them silos of excellence doing good work, but they don't even know each other.

Now given the issue of corruption and given the allegations that have been reported, I am very interested in knowing whether you expect there will be coordination between this Task Force 2010 and the work you are doing?

Yes, sir.

Mr. GAMBATESA. Yes, absolutely. We will be participating with 2010.

As I mentioned earlier, we have already gone to an initial briefing with them. And their goal is obviously to look at this contracting in a more overall sense. So we will definitely be working with them to either input and to pull out what they may find.

Mrs. LOWEY. Mr. Johnson.

Mr. JOHNSON. Yes, same here. With respect to work we are going to do on certifying the Afghan ministries, any corruption work we do, we will be reaching out to Task Force 2010.

General FIELDS. SIGAR has met with and has briefed the commander of the Task Force. We intend to work with them consistent with the mandate that we must follow to remain independent, but certainly we have mutual interests, and we will work with the Task Force to the maximum extent possible.

Mrs. LOWEY. Thank you very much. As you can see, there is support on both sides of the aisle for the work you are doing, and we are all focused on success in Afghanistan. And in my judgment and I know in the judgment of my ranking member, work on these issues that have been highlighted in our hearing today are critical to that success.

Thank you very much.

**Oversight of U.S. Civilian Assistance in Afghanistan
Questions for the Record – July 15, 2010 Hearing
Submitted by Chairwoman Nita Lowey for
Arnold Fields, Special Inspector General for Afghanistan Reconstruction**

Afghan Financial Management Information System:

The World Bank supported the establishment of the Afghan Financial Management Information System to manage resources provided through the public financial management systems of the country.

- What is your assessment of this mechanism and is it sustainable?
- What controls are in place to ensure resources are not diverted from their intended recipient?

SIGAR's priority at this time is to focus our audits on programs receiving substantial amounts of U.S. reconstruction assistance. We have not, therefore, reviewed the Afghan Financial Management Information System, because it is primarily funded by the World Bank. A reliable public financial management system, however, is key to building the capacity of the Afghan government to account for and manage U.S. funds channeled through its ministries. As the U.S. provides additional development funds through the Afghan government, the importance of this system will increase and SIGAR may look at this system in the future.

Private Banking Systems Strengthening:

- Have U.S. assistance programs adequately prioritized strengthening the financial management systems in the public and private sectors?
- Do you believe that the efforts of the Departments of Treasury, Homeland Security, and Justice as well as USAID have made a difference in securing the banking systems?
- What additional efforts should be undertaken to strengthen the private banking system?
- What other programs or policy reforms could ensure a safer operating environment for private business and investment?

In response to concerns about large amounts of cash being shipped out of Afghanistan, SIGAR is initiating a review to address whether U.S. and donor assistance programs to develop the Afghan banking sector are building an effective Afghan currency control regime. In this audit, we plan to focus on the status and development of the Afghan banking sector; identify currency control systems policies and activities of the Afghan government, including regulation of bulk cash flows into and out of the country; identify activities of the United States and other international donors supporting currency control efforts of the Afghan government; and assess the implementation and effectiveness of the Mission Interagency Civilian/Military Working Group Action Plan for regulating bulk cash flow at the Kabul International Airport. After we have

completed this work, we plan to do additional audit work focusing on efforts to build the overall banking sector.

Prosecution of Senior Government Officials:

The Appropriations Committee has provided resources to support a broad range of anti-corruption initiatives to develop a fair and transparent criminal justice system.

- **Have these efforts and units been allowed to act independently?**

Independence of key Afghan institutions is an important issue. An April 2010 SIGAR audit found that the Control and Audit Office (CAO) was not independent from the Office of the President. This lack of independence presents opportunities for the executive branch to limit reviews, scale back findings, and reduce candor in reporting. For example, the Afghan Auditor General, who heads the CAO, told SIGAR that CAO reviews had been subject to executive interference. Further, the Auditor General informed SIGAR that the CAO has been unwilling to take on audits that could be politically sensitive or may be halted by the Office of the President. Similarly, a March 2009 USAID-funded assessment of corruption in Afghanistan indicated there has been ongoing interference by the executive branch in setting audit schedules. The USAID-funded assessment noted that issues resulting from the CAO's lack of independence have influenced international donors to choose not to provide the level of support needed to professionalize and modernize CAO operations. A previous SIGAR audit found that the independence of Afghanistan's High Office of Oversight was also in question.

- **Do we have partners within the Government of Afghanistan and in civil society that recognize the importance of accountability and transparency?**

Afghan government officials, particularly within Afghan oversight institutions, have expressed support for accountability and transparency in discussions with SIGAR. We have made a number of recommendations regarding two Afghan organizations that can play an important role in fighting corruption. Some of the recommendations will require actions by the Afghan government. Whether the Afghan government takes these actions will be one indication of their intentions and capabilities in achieving accountability and transparency.

- **In your reviews have you found that the Afghan attorney general's anti-corruption task force is bending to political pressure and ignoring or sabotaging investigations of senior government officials and other "well placed" Afghans?**

SIGAR recognizes that this office is central to the fight against corruption and the establishment of a reliable and equitable justice system. We have begun an audit to look at the U.S. assistance to strengthen the capabilities of the Major Crimes Task Force. As part of this audit, we will examine independence issues. This audit should be completed early next year.

- **Have your investigations uncovered any evidence the senior members of the Afghan Government are protecting high-ranking officials who may be involved in corruption?**

SIGAR is aware of and concerned about allegations that senior Afghan officials are protecting high-level officials involved in corruption. However, SIGAR's investigations have not revealed any specific evidence in support of the allegations.

IG Capabilities:

- **Do you believe you have sufficient staff in-country?**

SIGAR does not have sufficient staff in Afghanistan to conduct audits and investigations. However, we are working with the U.S. Embassy and military commands to get support for a more robust presence. Presently, we are capped at 20 personnel stationed at the U.S. Embassy and have requested an additional 12 positions. We anticipate that our request will be approved, although actual deployment of additional staff will be contingent on available housing, which the U.S. Embassy expects to increase later in the year. We are also working with the military commands to station staff at locations throughout the country.

In the past 90 days, we have deployed 4 special agents to Afghanistan, and we plan to deploy 4 more by the end of next month. That will bring the total number of investigators stationed in Afghanistan to 13, compared with only 2 at the beginning of this fiscal year. We currently have 12 auditors residing at the U.S. Embassy, with more visiting Afghanistan on a temporary duty basis.

- **How do the various IGs (State, USAID, DOD, and SIGAR) collectively determine the scope of work so that there is no duplication of effort?**
- **Is there coordination of oversight of programs to ensure there is not unnecessary duplication of effort?**

The quarterly Southwest Asia Joint Planning Group (SWA JPG) meetings are a primary tool to help the various IGs avoid duplication of effort. Each IG office proposes individual work plans at these meetings for the next year, as well as rough timeframes for when the work will be conducted. If there is any overlap, it is discussed in this forum and decisions to address any duplication are reached. In addition, SIGAR sends out a draft notification letter to each of the IGs and GAO when starting audit work. This practice effectively identifies potential duplication and in several cases, SIGAR has adjusted work scope in response to feedback provided by other IG offices and GAO. Finally, we interact regularly with the other audit organizations, both in headquarters and in Afghanistan. In fact, we are doing a joint audit with the State Department IG and are considering joint audits with the Defense Department IG. We believe this process is working very well.

Our investigations directorate coordinates all investigative activity with the International Contract Corruption Task Force (ICCTF) partner agencies, which include DCIS, NCIS, FBI,

DoD IG, DoS IG, OSI, CID, and USAID. Such coordination is also conducted with other law enforcement agencies as necessary and appropriate.

- **What steps are you taking to strengthen both your investigation and audit capabilities and adherence with professional standards?**

SIGAR has taken several steps to strengthen our investigations and audit capabilities. First, we continue to hire highly qualified professional staff. Second, we established a team to develop a robust process to systematically obtain stakeholder input, identify and mitigate risks, and set work priorities consistent with SIGAR's legislative mandate. Third, SIGAR is establishing and clarifying policies and procedures, developing tools to ensure compliance, continuing to provide training, and conducting internal compliance inspections. Fourth, we are enhancing quality assurance by 1) expanding the Audit Directorate's program of quality control checks and activity monitoring to maintain reasonable assurance the Directorate is conducting its work in conformity with applicable professional standards and 2) establishing a comprehensive self-inspection program in the Investigations Directorate. As part of our overall quality assurance initiative for investigations, we have put in place an independent monitor with extensive experience in federal law enforcement policies, procedures, and standards. Fifth, we are developing systems to better assess the performance of our organization as a whole, as well as of individual staff.

Direct government-to-government assistance:

- **Can you describe what USAID has done to safeguard funding provided directly through the Ministries of Health and Finance?**

USAID has assessed and reported on the financial management capabilities of the Ministries of Health and Finance.

USAID issued a report on its assessment of the financial management capability of the Ministry of Public Health in October 2007, subsequently revised in May 2008. The report disclosed that the financial management procedures and systems of the Ministry of Public Health were adequate for purposes of accounting for and managing USAID funds that may be provided directly to the Ministry.

USAID conducted a similar assessment of the Ministry of Finance in March 2007, and a more current assessment of the Ministry of Finance and the Afghan Central Bank in July 2009. The July 2009 assessment reported that the financial management systems and procedures of the ministry and the bank were adequate for purposes of accounting for and managing funds that may be provided directly to the government of Afghanistan by USAID. However, in the same report, USAID disclosed that the CAO had limited capacity to audit donor funds. This limitation, according to USAID, could be sufficiently mitigated by providing technical assistance to the CAO, through USAID/Afghanistan's direct contracting for audit services and in-house financial reviews performed by USAID/Afghanistan staff or USAID/IG-approved audit firms. We would support a plan to promote technical assistance to the CAO.

USAID also has assessed the Ministry of Communication, Information, and Technology. USAID assessments of the Ministry of Education; the Ministry of Agriculture, Irrigation, and Livestock; and the Ministry of Rural Rehabilitation and Development are currently under way or have recently been completed. Further, other ministries and commissions are scheduled to be assessed in the coming months. Ministries are selected for assessment based on USAID's plans for implementing direct assistance through those ministries or commissions.

- **What process is USAID undertaking to assess the capacity of these ministries to receive direct assistance?**

The USAID assessments are a systematic examination of the Contracting Authority/Ministry's capability and integrity to carry out the procurement actions financed by USAID from solicitation to audit and closeout. The assessment forms the basis for the certification of a Contracting Authority/Ministry by the Mission Director.

Assessments provide an evaluation of these capabilities at the point in time the assessments are conducted; however, they do not guarantee that malfeasance will not occur. Assessments can determine whether proper systems and procedures are in place; however, as with any assessment they do not guarantee that these systems and procedures will not change or will continue to be used properly.

The objective of an assessment is to determine the ability of the contracting agency, the ministry, or the government to account for and manage funds, as well as their ability to procure USAID-financed goods and services required to implement bilateral activities. In meeting this objective, the assessment team examines the financial, budget, administration, internal audit, and procurement functions. All of these functions must be taken into consideration as a whole when determining whether or not a certification should be given.

Assessments may be "general" assessments of these capabilities and integrity or they can be "specific" to a planned procurement action. USAID/Afghanistan conducts "general" assessments of the Contracting Authorities/Ministries in lieu of separate assessments for each procurement action. Therefore, any certification of a contracting authority or ministry based on these general assessments must take into consideration the specifics of the proposed assistance to be provided and whether or not the general assessment included all the necessary components to support the Mission Director's certification of the specific procurement action with the host government ministry.

USAID's assessments are conducted with regard to the specific laws, regulations, policies and guidance that govern development assistance delivered by USAID. USAID's implementing and funding legislation is specific to USAID. As with all legislation, regulations, policies, and guidance, there may be commonalities between U.S. government agencies. However, USAID's assessments may not take into account all the relevant criteria to which other U.S. agencies may be subject.

- **What could USAID or other U.S. Government agencies do to increase the capacity of Afghan ministries that are being considered for direct government-to-government support?**

Since 2002, the United States has appropriated more than \$51 billion for reconstruction assistance in Afghanistan, and the Obama administration has recently submitted budget requests for an additional \$20 billion to help the Afghan government build its capacity to defend itself and govern effectively. Whereas the majority of prior U.S. assistance bypassed the Afghan government by providing funds directly to contractors and nongovernmental organizations, the new approach calls for significantly more U.S. assistance to be channeled through the Afghan government. However, the success of this approach will depend to a large degree on the capacity of the Afghan government to manage U.S. reconstruction funds and protect them from waste, fraud, abuse, and other forms of corruption. Because corruption, widely acknowledged to be a pervasive, systemic problem across Afghanistan, corrodes the Afghan government's legitimacy and undermines international development efforts, the United States has made strengthening the Afghan government's capability to combat corruption a priority. However, the majority of U.S. reconstruction assistance to Afghanistan has been provided without the benefit of an approved comprehensive U.S. anti-corruption strategy.

The Afghan government has given a number of ministerial-level departments and offices a direct role in combating corruption. In particular, the High Oversight Office (HOO), the CAO, and internal audit departments of ministries are key Afghan government oversight institutions with significant anti-corruption responsibilities. However, these institutions remain severely limited due, in part, to the lack of political will on the part of the Afghan government, and the lack of independence, audit authority, and capacity. Despite the important role Afghan oversight institutions have in combating corruption in Afghanistan and providing accountability over U.S. reconstruction funds, only a relatively small percentage of U.S. funding has been employed to help build the capacity of these institutions. However, in line with recommendations from prior SIGAR audits, USAID is currently in the procurement stage of a plan to increase assistance to the HOO and is developing a plan to increase assistance to the CAO. In addition, although SIGAR has not conducted extensive audit work on the internal audit departments of Afghan ministries, we believe that they are key Afghan government oversight institutions that could play a critical role in combating corruption and protecting U.S. and other donor funds from waste, fraud, and abuse. Consequently, the U.S. government would benefit from helping to strengthen the capacity of those institutions as well.

In an August 2010 audit report, SIGAR made two key recommendations to improve U.S. anti-corruption efforts in Afghanistan and help strengthen the capacity of Afghan government institutions to combat corruption and protect U.S. funds. Specifically, SIGAR recommended that the U.S. Secretary of State (1) approve and implement the draft U.S. anti-corruption strategy for reconstruction efforts in Afghanistan, and (2) review key Afghan oversight institutions, particularly the internal audit departments of Afghan line ministries, to determine whether the United States should provide them more assistance to strengthen their ability to combat corruption and provide accountability over U.S. reconstruction funds.

- **Do you believe that this oversight process is adequate? What more should USAID do to safeguard these resources?**

Safeguarding U.S. assistance resources in any developing country is a challenge, but doing so in Afghanistan is much more difficult. No amount of oversight will completely eliminate all

opportunities for waste, fraud, and abuse, whether that assistance is provided “off budget” or is channeled through the Afghan government. However, there are certain steps that can be taken to provide reasonable assurance that significant malfeasance is prevented or discovered in a timely manner. Auditing of U.S. funds and programs is a vital oversight tool but by definition is after-the-fact. More needs to be done in terms of real-time monitoring and evaluation of development programs to help ensure that resources are adequately safeguarded, efficiently procured, and ultimately used for their intended purposes.

- **Have you audited, or plan to audit, these funds to ensure that they have been used for their intended purposes? What programmatic reviews have been done to ensure that the program outcomes are achieved?**

We are doing multiple contract audits on USAID programs. In addition, we are reviewing development program issues on a sector basis. Early this year, we completed a comprehensive assessment of the energy sector, with several recommendations for USAID and the U.S. Embassy. This month, we initiated work on the agriculture and banking sectors. Our work on any development sector assesses program objectives and the results that have been achieved; however, we recognize that there are many more programs and contracts that need to be audited.

- **What oversight role does USAID have in reviewing programs and projects of the Afghan Reconstruction Trust Fund (ARTF)?**

ARTF provides a mechanism through which USAID can provide support to the Afghan government, including direct support to recurrent costs such as salaries and operation of key government buildings, as well as special projects and investment programs. USAID relies heavily on the World Bank, which manages the ARTF, to meet the U.S. government’s criteria for accounting standards.

- **Can USAID IG or the SIGAR audit funding channeled through the Trust Fund?**

SIGAR is currently conducting an audit of U.S. contributions to the ARTF used for the National Solidarity Program. A final report on this audit should be issued in early 2011. SIGAR is also planning to conduct an audit of other U.S. contributions to the ARTF. That audit should begin during the third quarter of fiscal year 2011 and will be designed to (1) identify all U.S. and other donor contributions and assistance to the ARTF, and (2) examine the accountability and internal controls over those contributions. SIGAR is coordinating this work with the USAID Inspector General.

High Office of Oversight:

In December 2009, SIGAR issued a report which concluded that the High Office of Oversight (HOO) needs “significantly strengthened authority, independence, and donor support” in order to become an effective oversight institution.

- **Do you believe the HOO can develop into a functional institution?**

We believe the HOO can develop into an effective institution over time, but specific reforms and additional resources need to be applied to strengthen it. As pointed out in our December 2009 audit report, the HOO suffers from serious shortcomings as an institution both in terms of its operational capacity and the legislative framework on which it is based. The HOO faces great challenges in building its capacity to fulfill its ambitious mandate.

The development of human and operational capacity of the HOO will amount to little unless it is coupled with substantial reform of the legislation meant to provide “teeth” to its mandate. The Afghan government has not invested the HOO with the appropriate authority or support to make it an effective oversight institution. An emerging body of opinion among some international partners is that the international community has not engaged the Afghan government in a political process to press for meaningful reform of the HOO. International efforts for capacity development of the HOO benefited it in the first year of operations. However, the international community, and the U.S. government in particular, need to improve coordination of its efforts and demonstrate both more focused commitment and a greater sense of urgency about the HOO’s success.

If the HOO is to succeed in its task to oversee and coordinate the National Anti-Corruption Strategy for Afghanistan, it must operate with clear and enhanced mechanisms of enforcement, investigation, and authority to support its daily responsibilities. It must benefit from organizational and external (budgetary) independence and take steps to ensure personal independence. Finally, the HOO must develop and monitor the fulfillment of a clear set of performance benchmarks in conjunction with international partners.

SIGAR believes that corrective actions taken in response to the recommendations in our audit report will help ensure that the HOO becomes a functional oversight organization.

- **Has the Government taken any action since these two reports to address the concerns raised in your audit?**

The U.S. Embassy has reported taking several steps to address SIGAR’s recommendations. Although SIGAR is waiting for supporting evidence to confirm that some of these actions have been taken, the U.S. Embassy stated that it has:

- Worked with the government of Afghanistan, the HOO, and others to put in place a strong anti-corruption policy, as presented by the government of Afghanistan at the London Conference.
- Helped the government of Afghanistan draft the Presidential Decree (Ferman), signed by President Karzai on March 18, 2010, which, among other things, provides significantly expanded investigative powers to the HOO; makes illegal political interference and obstruction of justice; provides the HOO with seconded judicial police; makes false personal asset declarations punishable administratively and criminally; requires the Ministry of Justice to review all laws and sanctions related to anti-corruption to make sure they exist and are appropriate to the crime; and requires the HOO to put in place within 90 days of signature an Anti-corruption Monitoring and Evaluation Committee of prominent Afghans and international experts, to track the government’s progress in the fight against corruption.

- Assisted the HOO in drafting a "Hukum" (Executive Order), which will require each ministry or agency of government to prepare an anticorruption action plan with its top three priorities, which the HOO will be responsible for monitoring.
- Written draft terms of reference for the Anti-Corruption and Monitoring Evaluation Committee at the request of HOO and made a list of potential international membership for the HOO's selection. The HOO has initially approved the terms of reference, which is being circulated for comment in the international community.
- Requested a new program of assistance for the HOO, up to \$30 million over 3 years, to support the HOO in carrying out its expanded mandate. The project team is expected to be operational in June.
- Committed to providing USAID assistance to the Control and Audit Office through the "Economic Governance and Growth Initiative" and discussions are ongoing as to the parameters of that assistance.

In late 2009, the CAO—with significant assistance from the international community—drafted a new audit law, which is now under review by the Ministry of Justice. According to several international stakeholders, the draft of the new audit law submitted to the Ministry of Justice contained revisions that, if passed, would provide the CAO with the independence, authority, mandate, and requirements to enable it to serve effectively as Afghanistan's Supreme Audit Institution. However, a copy of the Ministry of Justice's draft of the new audit law obtained by SIGAR in February 2010 may not provide the CAO with sufficient independence or authority, as it did not include many of these important, substantive revisions. We will continue to follow-up on actions taken to implement our recommendations to strengthen the HOO and the CAO.

**Oversight of U.S. Civilian Assistance in Afghanistan
Questions for the Record
Submitted by Ranking Member Kay Granger
for Arnold Fields, Special Inspector General for Afghanistan Reconstruction**

To the extent possible, please provide answers to the following questions based on the Special Inspector General for Afghanistan Reconstruction's analysis. If no analysis has been conducted, please provide information and timelines on whether it is planned.

Afghanistan Reconstruction Trust Fund (ARTF):

- 1. Please provide a description of your engagement with the ARTF to include SIGAR's end-goal for access and oversight as well as details on the dates and types of meetings held. When will you have additional information on your plans and timelines for audits?**

We are currently conducting an audit of the National Solidarity Program (NSP); this is one part of the ARTF. We are looking at accountability issues – are the funds being used as intended and are mechanisms in place to fully account for all funds. We will report on this work early next year. In addition, SIGAR is planning to conduct an audit of overall U.S. contributions to the Afghanistan Reconstruction Trust Fund in fiscal year 2011. One objective of this review will be to assess accountability, internal controls and evidence of corruption.

ARTF is a partnership between the international community and the Afghan government. Since 2002, 30 donors have provided nearly \$4 billion, making ARTF the largest contributor to the Afghan budget – for both operating costs and development programs. ARTF supports national programs, operating costs of the Afghan government, and a policy reform agenda to contribute to the achievement of the Afghanistan National Development Strategy goals, which include the promotion of transparency and accountability of reconstruction assistance. According to the World Bank, which administers the trust fund, during the period 2002-2010, the United States pledged to contribute \$1.25 billion to the trust fund; this constitutes the largest percentage of pledged funds (28.5 percent) from any individual country or source. It includes \$440 million for the NSP. The United States has already provided \$722 million of the total amount pledged to the ARTF.

Investigations:

- 1. What specific investigations are being conducted into the flow of funds in Afghanistan?**

We are working with other federal agencies, including U.S. Immigration and Customs Enforcement (ICE), to determine the source of bulk cash shipments leaving Afghanistan through the Kabul International Airport. Since March of this year, our investigators have been closely involved in a U.S. Immigration and Customs Enforcement (ICE) initiative to track bulk currency smuggling. At the end of March, ICE, with the assistance of multiple federal law enforcement agencies, launched a three-day operation to examine cash leaving via the airport. During this

period seven passengers declared \$8.2 million in cash that they were legally taking out of the country.

During April and May 2010, SIGAR investigators made three trips to Dubai to coordinate with other agencies and address the bulk currency transfers from Afghanistan to Dubai. We have provided pertinent investigative intelligence to ICE concerning that flow of cash. We are also investigating fraudulent activities involving subjects in Dubai that are potentially related to the transfer of currency from Afghanistan. These investigations are law enforcement sensitive and we are not in a position to further comment at this time.

It is important to recognize that Afghanistan has a primarily cash-based economy and there are numerous possible explanations for these movements of cash. For example, the large sums of legally declared currency exports could conceivably be the result of Afghanistan's high reliance on cash to conduct legitimate trade with the international community. It could also be money generated by criminal activity, such as corruption and the drug trade. We share concerns about the large sums of cash being exported through the Kabul International Airport, and SIGAR investigators are working with other federal agencies to determine the source of these bulk shipments.

We are also initiating an audit to address whether U.S. and donor assistance programs to develop the Afghan banking sector are building an effective Afghan currency control regime. This audit will examine the status and development of the Afghan banking sector; identify currency control systems, policies, and activities of the Afghan government, including regulation of bulk cash flow into and out of the country; identify activities of the United States and other international donors supporting currency control efforts of the Afghan government; and assess the implementation and effectiveness of the Mission Interagency Civilian/Military Working Group Action Plan for regulating bulk cash flows at Kabul International Airport.

The effort to deter corruption in Afghanistan would benefit greatly from increased visibility into the movement of money and financial transactions in Afghanistan. The lack of transparency is one of many issues that puts reconstruction dollars at risk.

Contract Oversight

1. Do USAID and State have the same weaknesses in contracting that have been identified for DOD? In addition to contracts, USAID often uses grants and cooperative agreements. Are there any particular vulnerabilities in those mechanisms?

Our previous and ongoing work has identified some of the challenges that Department of Defense (DOD), State, and U.S. Agency for International Development (USAID) face in effectively executing contracts for Afghan reconstruction. The use of contracts, grants, and cooperative agreements for reconstruction in Afghanistan is extensive. Agencies are using contractors and implementing partners to accomplish a variety of reconstruction objectives, from building facilities for the Afghan National Security Forces, constructing roads and other infrastructure, and training the Afghan National Police to developing local governance in Afghanistan's provinces and creating sustainable agriculture programs to facilitate the growth of Afghanistan's licit economy.

We have identified several weaknesses in contracts administered by DOD. For instance, although DOD has established procedures to ensure control and accountability over the Commander's Emergency Response Program (CERP) funds, we found weaknesses in their monitoring and execution procedures in 2009. We reported that program officials had limited visibility over CERP projects due in part to the lack of centrally retained project files and insufficient electronic records.¹ Furthermore, we have completed several audits of U.S. Army Corps of Engineers projects in which we have identified a number of contract-related issues. These resulted in a lack of quality control and in significant delays in the completion of Afghan National Army and Afghan National Police facilities in Kunduz and Kandahar.²

Our ongoing and future work is focused on examining weaknesses in contracts, grants, and cooperative agreements managed by DOD, State, and USAID, as well as identifying challenges faced by the three major agencies overseeing and managing Afghan reconstruction. We are currently undertaking a review of data on contracts, grants, and cooperative agreements used by DOD, State, and USAID for Afghan reconstruction. Our report, which we expect to complete in October 2010, will identify the obligations these agencies have made to support reconstruction objectives. We plan to use this work to identify individual contracts, grants, and cooperative agreements that should be audited. Based on our initial impressions, we have found that, although the agencies are contracting for different purposes, they may be encountering similar problems, such as a lack of effective requirements definition; insufficient oversight and surveillance of contracts, cooperative agreements, and grants; and inadequate financial management systems to maintain internal control over the funds obligated.

Federal law and agency acquisition regulations govern the use of cooperative agreements and grants. In response to concerns that federal agencies may be inappropriately awarding grants to avoid competition, Congress passed the Federal Grant and Cooperative Agreement Act³ to define when the use of contracts, grants, or cooperative agreements would be appropriate. SIGAR has not identified instances where DOD, State, or USAID used a grant or cooperative agreement to circumvent acquisition regulations. However, we plan to consider these issues as part of the audits undertaken of grants and cooperative agreements managed by State and USAID.

2. Do State and USAID have an ability to track who is receiving funds, from the sub-award level through the final recipients?

Our work suggests that DOD, State, and USAID face serious challenges in fully identifying and reporting on the prime contracts, grants, and cooperative agreements used for Afghan

¹ SIGAR Audit 09-S. *Increased Visibility, Monitoring, and Planning Needed for Commander's Emergency Response Program in Afghanistan*. Washington, DC/Kabul, Afghanistan), September 9, 2009. <http://www.sigar.mil/pdf/audits/Audit-09-S.pdf>

² SIGAR Audit 10-09. *ANA Garrison at Kunduz Does Not Meet All Quality and Oversight Requirements; Serious Soil Issues Need To Be Addressed*. (Washington, DC/Kabul, Afghanistan), April 30, 2010; SIGAR Audit 10-12. *ANP Compound at Kandahar Generally Met Contract Terms But Has Project Planning, Oversight, and Sustainability Issues*. (Washington, DC/Kabul, Afghanistan), July 22, 2010. <http://www.sigar.mil/pdf/audits/SIGAR%20Audit-10-12.pdf>

³ Federal Grant and Cooperative Agreement Act of 1977 (P.L. 95-224)

reconstruction. These challenges may extend to identifying subcontractors. Under contract regulations, although prime contractors are generally responsible for identifying and managing their subcontractors, federal agencies may insert language into contracts to require that prime contractors submit the names of subcontractors for approval prior to performing work on a contract. For instance, State requires consent and approval of any subcontractors by the government before a prime contractor is allowed to issue a subcontract in Afghanistan. USAID prime contractors and implementing partners are also required to obtain USAID contracting officer written consent before making a subcontract award under contracts, grants, or cooperative agreements.⁴ Our reviews of contracts, grants, and cooperative agreements suggest that this practice may not be adequately identifying all subcontractors performing work on reconstruction projects.

Our audit team is working to identify the challenges that DOD, State, and USAID face in tracking funds for Afghan reconstruction. We are currently conducting five audits of contracts, grants, and cooperative agreements. Additionally, we are beginning a forensic auditing program that will analyze obligations made for Afghan reconstruction to identify vendors and contracts at serious risk of fraud, waste, or abuse. This program will examine financial records and use models to highlight vendors who may be defrauding the government.

3. Who is responsible for vetting sub-contractors or sub-grantees? How do they determine that people receiving these funds are not terrorists, warlords, or individuals with corrupt backgrounds?

We are concerned about proper vetting of subcontractor and sub-grantee personnel in Afghanistan. Our previous and ongoing work has identified instances in which poor subcontractor vetting has caused cost, schedule, and performance problems. Furthermore, our work has indicated that the level of subcontractor vetting is not sufficient, and that the systems used to vet subcontractors are not fully capable of ensuring that these subcontractors have no ties to terrorist or corrupt organizations.

DOD, State, and USAID have requirements in place to require reporting of subcontractor information; but our preliminary work suggests that the systems used to capture this information may be insufficient. The Federal Acquisition Regulation permits, but does not require, federal agencies to include requirements in a contract that the prime contractor submit information on the subcontractors used to perform work.⁵ However, State and USAID both require that prime contractors obtain written consent before making subcontract awards. DOD also requires that subcontractor information be reported for certain contracts valued at more than \$550,000.⁶ However, our ongoing work suggests that the systems used to capture this information might not be sufficient. Because the quality of the documentation on contractors in Afghanistan is generally poor, DOD and State indicated to us that they are working to obtain biometric data on subcontractors to create a searchable database of approved individuals. For instance, DOD is

⁴ Who's Minding the Store: Hearing before the Commission on Wartime Contracting in Iraq and Afghanistan, July 26, 2010.

⁵ See *Federal Acquisition Regulation*, Part 44.2—Consent to Subcontractors.

⁶ Who's Minding the Store: Hearing before the Commission on Wartime Contracting in Iraq and Afghanistan, July 26, 2010.

implementing the Biometric Automated Toolset (BAT) card program for granting local contractors to base access. Biometric information on BAT cards includes fingerprint scans, iris scans, facial photos, and biographical information.⁷ State has reported that all local contractors and subcontractors performing work on government property must have a record on file with State's regional security officer that includes biometric information. This biometric information is compared against DOD, FBI, State, and DHS databases to identify potential individuals posing a security risk. This process is similar for third-country nationals. We have not yet directly evaluated these systems to determine if these systems can fully identify potential threats; however, U.S. agencies believe they are critical to achieving U.S. objectives in Afghanistan. Biometrics data in Afghanistan is predominantly used to identify, track, and apprehend insurgents as a means of force and base protection, as well as to prevent fraud and corruption. However, a comprehensive assessment on its use in Afghanistan has not been done.

We reported in January 2010 that problems awarding subcontracts and issues related to subcontractor performance led to delays in the construction of the Kabul power plant.⁸ Furthermore, we also have heard from other organizations that, while government-wide databases such as the Past Performance Information Retrieval System and the Excluded Parties List System keep track of contractors, these systems may lack full and complete information. DOD, State, and USAID officials have told us that gathering information on subcontractors is difficult due to the lack of documents used to identify Afghan nationals and the frequency with which Afghan firms change their names and officers. While these agencies report to us they hope to improve data with the introduction of biometric tools to identify contractors, we have not yet evaluated these programs to determine their effectiveness. We are planning to continue work on subcontractor vetting procedures in response to the concerns that we have identified and the important role that subcontractors play in carrying out reconstruction efforts.

Organizational Structure

1. Do you believe there is enough coordination across agencies and programs? Have you been able to determine how decisions are made?

We believe there is insufficient coordination across agencies and programs. SIGAR is initiating audit work in the agricultural sector, an area of reconstruction that we believe may have coordination difficulties. Multiple agencies, including USAID, DOD, State, and the U.S. Department of Agriculture (USDA) are spending reconstruction funds for agricultural development through a variety of programs. What SIGAR has found by looking at other sectors, mainly the energy sector, is that it is extremely difficult when you have so many U.S. agencies involved, including the international donor community, to have a coordinated effort. We found in

⁷ Interagency Coordination of Grants and Contracts in Iraq and Afghanistan: Progress, Obstacles, and Plans, Hearing before the Subcommittee on Oversight and Investigations of the House Armed Services Committee, 110th Cong., (testimony of Gary Motsek, 2010).

⁸ SIGAR Audit 10-6, *Contract Delays Led to Cost Overruns for the Kabul Power Plant and Sustainability Remains a Key Challenge* (Washington, D.C./Kabul, Afghanistan), January 20, 2010. <http://www.sigar.mil/pdf/audits/SIGAR%20Audit-10-6.pdf>

the energy sector that there was a lack of coordination, planning, and common standards. Furthermore, a July 2009 SIGAR audit report found that although key U.S. agencies and commands in Afghanistan have management information systems for collecting data on their reconstruction activities, there is no single management information system that provides complete and accurate information of all completed, underway, and planned reconstruction activities.⁹ In this report, SIGAR recommended that U.S. civilian agencies and military commands work together toward developing an integrated management information system, or comparable integrated information solution, for Afghanistan reconstruction activities that provides a common operating picture of reconstruction programs and projects. SIGAR believes that the civilian uplift—assigning staff from civilian agencies to the Provincial Reconstruction Teams—has the potential to improve program coordination among agencies. We are currently conducting a review of how the uplift is being implemented and when this work is completed, we will have comments regarding the affect of the uplift on agency coordination.

Civilian Uplift

1. **Are staff equipped with the right skills to properly oversee and manage foreign assistance dollars? Do they receive sufficient training including specifically related to corruption?**
2. **Is there sufficient support from contracting officers in Kabul and in Washington?**
3. **Are there reporting mechanisms that alert staff to problems as they occur, not after the problem?**

Properly trained staff are essential to the effective delivery of U.S. assistance. That's why, in April 2010, SIGAR began an audit of the implementation of the civilian uplift projects specifically to answer these questions. This audit will examine the capacity of civilian implementers to perform contract and grant oversight, as well as the support they are receiving and whether or not there are mechanisms in place to detect potential problems. . SIGAR envisions this audit, which will be completed in the fall of 2010, as a key tool to assist the Congress in evaluating U.S. civilian oversight capacity in the field. In the interim, SIGAR would like to note that our work to date suggests that civilians in the field have limited contract and grant oversight authorities, although efforts are under way to improve oversight by civilians in the field.

⁹ SIGAR Audit 09-3, *A Better Management Information System Is Needed to Promote Information Sharing, Effective Planning, and Coordination of Afghanistan Reconstruction Activities* (Washington, D.C./Kabul, Afghanistan), July 30, 2009. <http://www.sigar.mil/pdf/audits/Audit-09-3.pdf>

Monitoring and Evaluation

1. **Is there a sufficient focus on monitoring and evaluation of programs in Afghanistan so that State and USAID can uncover corruption as well as performance problems?**
2. **Do you think that there are sufficient requirements in place that require both financial and performance reporting for contractors and grantees in Afghanistan? Does that system go down to the sub-award level? What weaknesses need to be addressed?**

While agencies are subject to a variety of reporting requirements and have each developed multiple systems to report financial and performance information, SIGAR is concerned that the data reported may not be complete enough for DOD, State, and USAID to provide full oversight over Afghan reconstruction projects. For instance, in our ongoing work, SIGAR has found that agencies have faced challenges in fully identifying and readily reporting on the obligations made against contracts, grants, and cooperative agreements. By not keeping track of this information, DOD, State, and USAID may be challenged to connect resources to results.

We are particularly concerned with the amount and quality of data on subcontractors. Our work has indicated that subcontractor data reporting requirements may differ by agency, program, or even by contract. Furthermore, reports obtained from our investigators and data analyzed by our auditors have indicated that the large number of subcontractors coupled with poor data on subcontracting may pose a serious risk of fraud, waste, or abuse of funds. In our effort to identify weaknesses that need to be addressed, SIGAR is continuing to examine the use of subcontractors, the data systems used to record information on subcontractors, and the effectiveness of agency efforts to ensure that prime contractors and subcontractors are performing work efficiently and effectively. In fact, SIGAR has begun a forensic audit program to analyze the financial data provided by DOD, State, and USAID to identify prime contractors and subcontractors who may be engaging in fraud, waste, and abuse of funds.

In terms of weaknesses that need to be addressed, SIGAR would like to draw the attention of the U.S. Congress to potential challenges in the Afghan First program. Many contracts have used U.S., Afghan, or third-country national subcontractors to perform work. Under the Afghan First policy, local procurement of Afghan products is encouraged to increase the number of Afghan prime contractors. While this policy may support U.S. and Coalition goals to promote Afghan economic development, it also raises potential challenges for DOD, State, and USAID in keeping track of financial and performance data on prime contractors and subcontractors.



United States Government Accountability Office
Washington, DC 20548

August 18, 2010

The Hon. Nita M. Lowey
Chairman
Subcommittee on State, Foreign Operations, and Related Programs
Committee on Appropriations
H-218 U.S. Capitol
House of Representatives
Washington, D.C. 20515

Dear Chairman Lowey:

Attached please find my answers to your questions for the record following my July 15, 2010 testimony, *Afghanistan Development: USAID Continues to Face Challenges in Managing and Overseeing U.S. Development Assistance Programs* (GAO-10-932T), before the subcommittee. My answers are based on the testimony and other work that was conducted in accordance with generally accepted government auditing standards.

If you or your staff have any further questions, please contact me at (202) 512-7331 or johnsoncm@gao.gov or Hynck Kalkus, Assistant Director, at (202) 512-9871 or kalkush@gao.gov.

Sincerely yours,

[signed]

Charles Michael Johnson, Jr.
Director
International Affairs and Trade

Enclosure

**Oversight of U.S. Civilian Assistance in Afghanistan
Questions for the Record
Submitted by Chairwoman Nita Lowey
for Charles Johnson, Director, Government Accounting Office**

Oversight of Agriculture Programs: In July 2010, GAO released a report that outlined vulnerabilities in the agriculture programs – including the lack of direct oversight of the program, the lack of documentation of goals and objectives, and therefore the lack of an ability to measure whether programs met the assumed targets and outcomes.

1. With regard to the agriculture portfolio, what specific steps did GAO recommend to address deficiencies in USAID agricultural programs? Does GAO believe that USAID has taken the necessary steps to ensure that these problems do not continue in the existing agriculture programs in the South?

A: We made several recommendations to the Administrator of USAID in order to enhance the performance management of USAID's agricultural programs in Afghanistan.¹ Specifically, we recommended that the Administrator take steps to (1) ensure the approval of implementing partner performance indicators; (2) ensure that implementing partners establish targets for all performance indicators; (3) consistently analyze and interpret program data, such as determining the extent to which annual targets are met; (4) make use of results from evaluations of its agricultural programs; and (5) address preservation of institutional knowledge. In their comments, USAID pointed to a number of steps that they have taken to address some, but not all, of our recommendations; however, we believe additional steps are needed to fully address our recommendations. USAID has 60 days after the issuance of our reports to issue a formal response on how they plan to follow through on the recommendations.

While our report focused on data through fiscal year 2009, an initial review of the fiscal year 2010 targets and indicators for the agricultural programs within our review, found that they have targets for most indicators. In addition, performance management plans are also in place.

2. In light of the very real security concerns, what steps could USAID and the State Department take to increase oversight without putting the lives of civilians at risk? Should the U.S. government hire additional Foreign Service national staff to conduct oversight visits to areas not secure for Americans?

A: USAID has identified several alternative monitoring methods to address the high-threat security environment, including, among others: placement of more staff in the field; use of Afghan staff—who have greater mobility than expatriate staff—to monitor projects; hiring of a contractor to monitor the implementation of construction projects and conduct regular site visits; and collecting of implementing partner video or photographs—including aerial photographs. In April 2010, we reported on USAID's use of contractors, including local national contractors, to monitor the activities of other

¹GAO, *Afghanistan Development: Enhancements to Performance Management and Evaluation Efforts Could Improve USAID's Agricultural Programs*, GAO-10-368 (Washington, D.C.: Jul. 14, 2010).

USAID contractors and grantees.² We found that while using contractors to support the oversight of contracts and grants can facilitate the government's ability to conduct effective oversight, agencies needed to more effectively plan for and mitigate the risks of contractors performing these functions. For example, we recommended that USAID determine as part of its workforce planning process the extent to which contractors should be used to perform monitoring functions. USAID should develop requirements for using and documenting these procedures in Afghanistan. Nevertheless, we found that, in regards to agricultural programs, USAID was not following its own performance management and evaluation procedures. For example, we found that USAID staff were not adequately analyzing and interpreting the data submitted to them by implementing partners—a key step in determining to what extent programs were meeting their goals and objectives. We believe that USAID has a number of procedures available, which could improve their implementation and oversight of agricultural programs.

While we did not find similar requirements in Afghanistan, we also found that USAID's Office of Transition Initiatives in Pakistan used and documented these alternative monitoring methods in Pakistan's Federally Administered Tribal Areas.³

3. Although it is not possible to know whether the project achieved the intended results, as these were not outlined, did the project have any impact on the agriculture sector?

A: USAID has reported a number of results of its projects. For example, in fiscal year 2009, the Afghanistan Vouchers for Increased Production in Agriculture program reported assisting 296,920 households, 295,419 hectares planted with distributed seeds, and 110,752 farmers trained to produce wheat seed, among other things; while the Incentives Driving Economic Alternatives-North, East, and West program reported benefiting 110,719 households, developing 573 hectares of land devoted to licit agriculture, and creating 2,434 full-time-equivalent jobs, among other things.

4. USAID and the Department of State are undertaking a civilian surge. How will this help address the problems outlined in the report? In staffing up the agencies, do you have any recommendations in terms of expertise, skills, or training that new staff in Afghanistan should have prior to deployment?

A: GAO began a new engagement looking at the civilian surge in May 2010. We plan to issue a report in 2011, and would be available to brief the subcommittee in late fall 2010 on our preliminary observations. We plan to address to what extent and through what processes civilian agencies are fulfilling staffing requirements for the civilian surge in Afghanistan. In addition, a component of our review includes addressing what steps U.S. agencies are taking to prepare their personnel for deployment to Afghanistan. GAO's initial observations have found that one component of the civilian surge includes additional personnel to conduct monitoring and evaluations of programs.

²GAO, *Contingency Contracting: Improvements Needed in Management of Contractors Supporting Contract and Grant Administration in Iraq and Afghanistan*, GAO-10-357 (Washington, D.C.: Apr 12, 2010)

³GAO, *Combating Terrorism: Planning and Documentation of U.S. Development Assistance in Pakistan's Federally Administered Tribal Areas Need to Be Improved*, GAO-10-289 (Washington, D.C.: Apr. 15, 2010).

Direct Government-to-Government Assistance:

5. Can you describe what USAID has done to safeguard funding provided directly through the Ministries of Health and Finance?
6. What process is USAID undertaking to assess the capacity of these ministries to receive direct assistance?
7. What could USAID or other U.S. Government agencies do to increase the capacity of Afghan ministries that are being considered for direct government-to-government support?
8. Do you believe that this oversight process is adequate? What more should USAID do to safeguard these resources?
9. Have you audited, or plan to audit, these funds to ensure that they have been used for their intended purposes? What programmatic reviews have been done to ensure that the program outcomes are achieved?
10. What oversight role does USAID have in reviewing programs and projects of the Afghan Reconstruction Trust Fund?
11. Can the USAID IG audit funding channeled through the Trust Fund?

A: GAO began a new engagement looking at the accountability of U.S. direct funding provided to Afghanistan in July 2010. It is our intention to also look at the general accountability of international trust funds as part of this engagement. We plan to issue a report in 2011, and would be available to brief the subcommittee in late fall 2010 on our preliminary observations. As we are still in a scoping phase, we preliminarily plan to address (1) how the United States has provided funding to support security, governance, and development efforts in Afghanistan, and how much as been provided; (2) what internal controls have U.S. agencies established for U.S. direct funding to support Afghanistan; and (3) to what extent have U.S. agencies implemented internal controls and provided oversight over their direct funding to Afghanistan.

Some direct government-to-government funding is directly transferred from our government to the Afghan ministries, such as the support we provide to the Ministries of Finance and Public Health. In other cases, the United States provides funds to support international trust funds in support of Afghan initiatives, such as the support we provide to the Afghan Reconstruction Trust Fund managed by the World Bank. As we continue design and data gathering on this job, we will consider your questions and do our best to address them.

USAID Program Oversight and Accountability:

12. Has USAID taken steps to implement your recommendations and provide better documentation, monitoring and inspection of USG programs in Afghanistan?

A: USAID pointed to a number of steps it has taken to address some of our recommendations; however, we believe those steps only partially addressed our recommendations. USAID has 60 days after the issuance of our reports to issue a formal response to congressional committees of jurisdiction on how they plan to follow through on the recommendations.

13. Have you seen evidence that the increase in personnel, known as the "civilian surge," is helping address some of these oversight challenges?

A: GAO began a new engagement looking at the civilian surge in May 2010. We plan to issue a report in 2011, and would be available to brief the subcommittee in late fall 2010 on our preliminary observations. GAO's initial observations have found that one component of the civilian surge includes additional personnel to conduct monitoring and evaluations of programs, which may help address some oversight challenges. In March 2009, the President announced a new, comprehensive strategy for Afghanistan and Pakistan, including a dramatic increase in the U.S. civilian effort within Afghanistan. The purpose of this increase is to build security, governance and development capacity in the Afghan government at the national and provincial levels. According to Department of State officials, to date, the U.S. civilian presence under Chief of Mission Authority at the embassy in Kabul and in Afghan provinces has grown from 520 positions to around 1,000. Many of these new positions serve to extend U.S. program implementation out into the field, however others are intended to enhance the embassy's capacity to absorb, process, deploy, and secure large numbers of incoming civilians, as well as provide greater oversight.

14. Is there an optimum number of contract and program personnel that should be assigned to monitor project implementation?

A: Our work has found that once a contract is awarded, it is important that an agency implements a process to effectively manage and assess contractor performance, such as by having plans and mechanisms for capturing and documenting performance information, as well as having a capable workforce for overseeing contractor activities. As each project differs, however, agencies need to tailor the management and oversight of individual projects to meet their needs.

15. Does USAID have the right staffing expertise in the right places in Afghanistan?

A: As we reported in 2009, USAID, along with DOD and State, has faced a lack of acquisition and oversight personnel with experience working in contingency operations that has undermined the agencies' ability to effectively manage contractors in Afghanistan.⁴

16. What limitations does USAID staff face in the field and in PRTs when seeking to provide proper oversight of programs and projects?

A: According to USAID, Afghanistan's high-threat environment prevents their personnel "from monitoring project implementation in an adequate manner with the frequency required" and creates high degree of potential for fraud, waste, and mismanagement of Mission resources. USAID further noted that the deficiency in USAID's efforts to monitor projects will remain unresolved until the security situation in Afghanistan improves and stabilizes. As noted in our response to question 2 above, USAID has identified a number of alternative monitoring methods to address the limitation to monitoring project implementation. We reported in April 2010 about USAID's use of one of these alternative monitoring methods—the use of contractors to

⁴GAO, *Afghanistan: Key Issues for Congressional Oversight*, GAO-09-473SP (Washington, D.C.: April 21, 2009).

perform on-site monitoring of contractor or grantee activities.⁵ USAID officials noted that local national contractors performing on-site monitoring of contractor or grantee activities at remote locations could generally travel more easily to project sites because of familiarity with local languages and customs and fewer travel restrictions.

17. What administrative changes should be implemented to provide more autonomy and responsibility to staff in the field?

A: USAID should operationalize and document how and when they will use the new alternative monitoring methods available to them. USAID should also consider and document when the high-threat environment makes the establishing and tracking of indicators and targets untenable.

⁵GAO-10-357.



G A O

Accountability • Integrity • Reliability

United States Government Accountability Office
Washington, DC 20548

August 18, 2010

The Hon. Kay Granger
Ranking Member
Subcommittee on State, Foreign Operations, and Related Programs
Committee on Appropriations
H-218 U.S. Capitol
House of Representatives
Washington, D.C. 20515

Dear Rep. Granger:

Attached please find my answers to your questions for the record following my July 15, 2010 testimony, *Afghanistan Development: USAID Continues to Face Challenges in Managing and Overseeing U.S. Development Assistance Programs* (GAO-10-932T), before the subcommittee. My answers are based on the testimony and other work that was conducted in accordance with generally accepted government auditing standards.

If you or your staff have any further questions, please contact me at (202) 512-7331 or johnsoncm@gao.gov or Hynek Kalkus, Assistant Director, at (202) 512-9871 or kalkush@gao.gov.

Sincerely yours,

[signed]

Charles Michael Johnson, Jr.
Director
International Affairs and Trade

Enclosure

Oversight of U.S. Civilian Assistance for Afghanistan
Questions for the Record
Submitted by Ranking Member Kay Granger
for Charles Johnson, Director, GAO

To the extent possible, please provide answers to the following questions based on GAO's analysis. If no analysis has been conducted, please provide information and timelines on whether it is planned.

Afghanistan Reconstruction Trust Fund (ARTF)

1. Does GAO have the ability to review the ARTF? Does GAO have the ability to review specific projects? Has GAO conducted any reviews? If so, what are your initial findings? If not, what is planned?

A: GAO began a new engagement looking at the accountability of U.S. direct funding provided to Afghanistan in July 2010. It is our intention to also look at the general accountability of international trust funds as part of this engagement. We plan to issue a report in 2011, and would be available to brief the subcommittee in late fall 2010 on our preliminary observations. As we are still in a scoping phase, we preliminarily plan to address (1) how the United States has provided funding to support security, governance, and development efforts in Afghanistan, and how much as been provided; (2) what internal controls have U.S. agencies established for U.S. direct funding to support Afghanistan; and (3) to what extent have U.S. agencies implemented internal controls and provided oversight over their direct funding to Afghanistan.

Some direct government-to-government funding is directly transferred from our government to the Afghan ministries, such as the support we provide to the Ministries of Finance and Public Health. In other cases, the United States provides funds to support international trust funds in support of Afghan initiatives, such as the support we provide to the Afghan Reconstruction Trust Fund managed by the World Bank. As we continue design and data gathering on this job, we will be sure to keep your questions in mind and do our best to address them.

Contract Oversight

2. Do USAID and State have the same weaknesses in contracting that have been identified for DOD? What are the similarities and differences? In addition to contracts, USAID often uses grants and cooperative agreements. Are there any particular vulnerabilities in those mechanisms?

A: Across DOD, State, and USAID, we have found that the agencies' ability to effectively manage contractors in Afghanistan has been undermined by several systemic challenges, including a failure to clearly define contract requirements and a lack of acquisition and oversight personnel with experience working in contingency operations. These challenges have contributed to higher costs, schedule delays, and operational impacts.

Contracts and grants are two instruments the government may use to achieve its missions, with their selection principally governed by the nature of the activity. Contracts are procurement instruments and, as such, are governed by the Federal Acquisition Regulation (FAR) and agency procurement regulations. Contracts are to be used when the principal purpose of the project is the acquisition of goods and services for the direct benefit of the federal government. Grants, on the other hand, are to be used when the principal purpose of a project is to accomplish a public purpose of support or stimulation authorized by federal statute. Regardless of the instrument selected by USAID, the agency needs to focus attention on contract and grant administration activities to ensure that the government is getting the expected products or services from contractors or that grantees are performing in accordance with grant programs.

3. Do State and USAID have an ability to track who is receiving funds, from the sub-award level through the final recipients?

A: Our work has focused on State's and USAID's ability to provide data on the number and value of individual subcontracts in Iraq and Afghanistan. We reported in October 2009 that State and USAID were unable to provide data on the number or value of individual subcontracts.¹ Contract files may contain information on subcontracts, but none of the agencies systematically tracked this information. The value of subcontracts is captured in the total value of the prime contract, but the agencies were unable to provide us with data on what portion of the total contract value went to subcontractors.

4. Who is responsible for vetting sub-contractors or sub-grantees? How do they determine that people receiving these funds are not terrorists, warlords, or individuals with corrupt backgrounds?

A: In November 2006, we reported that documentation to help prevent terrorists and criminals from benefiting from U.S. assistance was limited at best.² USAID and State are required to adhere to an executive order and laws that ban, among other things, assistance to terrorists, drug traffickers, and human rights violators. To comply, USAID and State used certifications and contract clauses to help ensure that the contractors, grantees, and other aid recipients were aware of the legal requirements. However, USAID's and State's vetting of Afghan nationals was limited because of incomplete or nonexistent birth records and other identifying documentation, and the difficulty of investigating widespread allegations of misconduct. We have not conducted follow up work on State and USAID's efforts in this matter. However, GAO has recently initiated a review of the processes used by the Department of Defense, Department of State, and USAID, to vet Afghan and Pakistani firms receiving U.S. government contracts to ensure that these firms are not associated with insurgent organizations. In addition, our review is looking at how this information is shared between U.S. government agencies and our NATO partners. This review also examines the processes used by U.S. firms to

¹GAO, *Contingency Contracting: DOD, State, and USAID Continue to Face Challenges in Tracking Contractor Personnel and Contracts in Iraq and Afghanistan*, GAO-10-1 (Washington, D.C.: Oct. 1, 2009).

²GAO, *Afghanistan Drug Control: Despite Improved Efforts, Deteriorating Security Threatens Success of U.S. Goals*, GAO-07-78 (Washington, D.C.: Nov. 15, 2006).

vet their Afghan and Pakistani subcontractor companies and the processes used to vet individual contractor employees. We anticipate this work to be completed in mid-2011.

Organizational Structure

5. Do you believe there is enough coordination across agencies and programs in Afghanistan?

A: We reported in June 2010 on the strategic framework guiding U.S. efforts in Afghanistan and noted that the integrated Civilian-Military Campaign Plan for Support to Afghanistan, developed collaboratively by the U.S. agencies working in Afghanistan, calls for integrated civilian and military teams to address several lines of effort.³ We found coordination has increased in at least some areas. For example, according to USAID officials, their new database, Afghan Info, is being used to track both USAID's development projects and the Department of Defense's Commanders Emergency Response Program projects, which was not the case in 2008 when we reported on road reconstruction efforts.⁴ In addition, U.S. officials involved in Afghan counternarcotics stated that coordination between agency partners has been largely successful: Agency partners meet regularly through several coordinating bodies in Kabul, such as the Eradication Working Group and Counternarcotics Sync Group.⁵ On the other hand, in our recent report on USAID agricultural programs, we found that field staff could not explain why USAID staff in Kabul had not approved an implementing partner's performance management plan for the entire five years of the contract.⁶

6. Are there too many decision-making layers?

A: GAO has not conducted any analysis of and has no ongoing work addressing this matter.

7. Do you have suggestions for reforming the structure?

A: GAO has not conducted any analysis of and has no ongoing work addressing this matter.

Civilian Uplift

³GAO, *The Strategic Framework for U.S. Efforts in Afghanistan*, GAO-10-655R (Washington, D.C.: June 15, 2010).

⁴GAO, *Afghanistan Reconstruction: Progress Made in Constructing Roads, but Assessments for Determining Impact and a Sustainable Maintenance Program Are Needed*, GAO-08-689 (Washington, D.C.: Jul. 8, 2008).

⁵GAO, *Afghanistan Drug Control: Strategy Evolving and Progress Reported, but Interim Performance Targets and Evaluation of Justice Reform Efforts Needed*, GAO-10-291 (Washington, D.C.: Mar. 9, 2010).

⁶GAO, *Afghanistan Development: Enhancements to Performance Management and Evaluation Efforts Could Improve USAID's Agricultural Programs*, GAO-10-368 (Washington, D.C.: Jul. 14, 2010).

8. Are civilian staff equipped with the right skills to properly oversee and manage foreign assistance dollars? Do they receive sufficient training including specifically related to corruption?

A: GAO began a new engagement looking at the civilian surge in May 2010. We plan to issue a report in 2011, and would be available to brief the subcommittee in late fall 2010 on our preliminary observations. We plan to address to what extent and through what processes civilian agencies are fulfilling staffing requirements for the civilian surge in Afghanistan. In addition, a component of our review includes addressing what steps U.S. agencies are taking to prepare their personnel for deployment to Afghanistan. GAO's initial observations have found that one component of the civilian surge includes additional personnel to conduct monitoring and evaluations of programs.

9. Is there sufficient support from contracting officers in Kabul and in Washington?

A: GAO has not conducted any analysis of and has no ongoing work addressing this matter. However, the U.S. Embassy in Kabul has reported that USAID personnel are individually tasked with overseeing larger amounts of funds than in other parts of the world. The embassy has suggested that each USAID Foreign Service Officer worldwide was responsible for just over \$1 million in programs funds, but in Afghanistan each USAID Foreign Service Officer is responsible for \$34.3 million. In addition, USAID monitoring officials noted that they often lack the time to properly review project documentation.

10. Are there reporting mechanisms that alert staff to problems as they occur, not after the problem?

A: Regarding USAID agricultural programs, we found that USAID monitoring officials were in regular contact with implementing partners and received a number of regular reports, including either weekly or biweekly and quarterly reports. However, these reports do not require discussion of challenges and problems. Instead, challenges and problems are generally discussed more informally, if at all, between USAID and its implementing partners.

Monitoring and Evaluation

11. Is there a sufficient focus on monitoring and evaluation of programs in Afghanistan so that State and USAID can uncover corruption as well as performance problems?

A: GAO has found mixed emphasis on monitoring and evaluation during our most recent reviews of USAID activities. In November 2009, we reported that USAID's failure to adhere to its existing policies severely limited its ability to require expenditure documentation for grants that were associated with findings of alleged criminal actions and mismanagement.⁷ In our March 2010 counternarcotics report, we found that U.S. agencies in all counternarcotics areas had monitored program progress through direct U.S. agency oversight, contractor reporting, and/or third-party verification. For example,

⁷GAO, *UN Office for Project Services: Management Reforms Proceeding but Effectiveness Not Assessed, and USAID's Oversight of Grants Has Weaknesses*, GAO-10-168 (Washington, D.C.: Nov. 19, 2009).

eradication figures were routinely reported by U.S. Department of State (State) officials and contractors, and verified by United Nations Office of Drugs and Crime monitors.⁸ However, regarding USAID agricultural programs, GAO found that USAID was not adequately following its own performance management and evaluation procedures, which would help address performance problems and deter or uncover corruption.⁹

12. Do you think that there are sufficient requirements in place that require both financial and performance reporting for contractors and grantees in Afghanistan? Does that system go down to the sub-award level? What weaknesses need to be addressed?

A: We have found several examples in which USAID has sufficient requirements in place for both financial and performance reporting for contractors and grantees in Afghanistan, but it does not always follow its own procedures. For example, USAID's procedures require the establishment of performance indicators and targets, and the analysis and use of program performance data. However, we found that indicators and targets were not always established by USAID, and although performance data was collected it was unclear the extent to which USAID uses performance data to adjust current and future programs.

⁸GAO-10-291.

⁹GAO-10-368.



G A O

Accountability • Integrity • Reliability

United States Government Accountability Office
Washington, DC 20548

August 18, 2010

The Hon. Jerry Lewis
Ranking Member
Committee on Appropriations
H-218 U.S. Capitol
House of Representatives
Washington, D.C. 20515

Dear Rep. Lewis:

Attached please find my answers to your questions for the record following my July 15, 2010 testimony, *Afghanistan Development: USAID Continues to Face Challenges in Managing and Overseeing U.S. Development Assistance Programs* (GAO-10-932T), before the Subcommittee on State, Foreign Operations, and Related Programs. My answers are based on the testimony and other work that was conducted in accordance with generally accepted government auditing standards.

If you or your staff have any further questions, please contact me at (202) 512-7331 or johnsoncm@gao.gov or Hynck Kalkus, Assistant Director, at (202) 512-9871 or kalkush@gao.gov.

Sincerely yours,

[signed]

Charles Michael Johnson, Jr.
Director
International Affairs and Trade

Enclosure

**Oversight of U.S. Civilian Assistance for Afghanistan
Questions for the Record
Submitted by Ranking Member Jerry Lewis
for Charles Johnson, Director, GAO**

To the extent possible, please provide answers to the following questions based on GAO's analysis. If no analysis has been conducted, please provide information and timelines on whether it is planned.

Agriculture and Counternarcotics

1. Have the investments in the agriculture sector done enough to replace income that previously flowed from poppy growth and drug trafficking? What more needs to be done?

A: In our March 2010 counternarcotics report, we found that opium poppy production has declined the past two years from a peak in 2007, a trend expected to continue this year as well.¹ The number of poppy-free provinces has gradually increased to 20 of 34 Afghan provinces, and cultivation is now concentrated in the south and west of the country. Opium poppy still remains the most lucrative crop in Afghanistan, yielding more value per hectare than other crops. For example, UNODC calculated that in 2009, the gross income from a hectare of poppy equaled \$3,600, while a hectare of wheat, the most-prevalent crop, generated a gross income of \$1,200. Other estimates of the revenues derived from poppy and cereal crops vary, but surveys of Afghan farmers have found that poppy cultivation is so lucrative that it overrides any alternatives. Higher-value legal crops like nuts yield more revenue than cereal crops and even poppy but require substantial multi-year investments and infrastructure that many farmers can't afford. The USDA, USAID, and other U.S.-assisted agricultural programs provide seed, fertilizer, and technical support for growing these high-value crops, as well as other crops. Developing markets for these agricultural products is another component of these programs.

As we noted in our report, U.S. strategy in Afghanistan has recently emphasized drug interdiction and deemphasized the eradication of poppy crops and the use of poppy cultivation as a total measure of counternarcotics success. In addition, this strategic shift increased assistance to farmers and integrated alternative development programs into general agricultural assistance. By increasing the number of Drug Enforcement Administration agents in Afghanistan and using the military to target drug elements involved in the insurgency, the U.S. government is attempting to debilitate other actors that profit from the opium trade and refine it into heroin and other narcotics.

2. Do you think enough is being done to stop the flow of funds from the illegal drug trade?

¹GAO, *Afghanistan Drug Control: Strategy Evolving and Progress Reported, but Interim Performance Targets and Evaluation of Justice Reform Efforts Needed*, GAO-10-291 (Washington, D.C.: Mar. 9, 2010).

A: GAO has not conducted any analysis of and has no ongoing work addressing this matter. However, it is our understanding the Special Inspector General for Afghanistan Reconstruction has ongoing work analyzing the flow of funds from Afghanistan.



Office of Inspector General

August 26, 2010

The Honorable Nita M. Lowey
Chairwoman
Subcommittee on State, Foreign Operations, and Related Programs
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515

Dear Madam Chairwoman:

Thank you for the opportunity to testify at the hearing on July 15, 2010, titled "Oversight of U.S. Civilian Assistance for Afghanistan" and to discuss the oversight activities of the U.S. Agency for International Development, Office of Inspector General.

The Subcommittee subsequently issued questions for the record and our responses are enclosed. We have marked some of the material appearing on pages 8 and 9 as "Law Enforcement Sensitive." This information is not classified, but public release could compromise ongoing investigations. Therefore, we respectfully request that you disseminate the information to only those members of Congress with a need to know.

We appreciate your continuing support of our work and hope this information is useful to you. If you or members of your staff have any questions or would like additional information, please contact me or Dona M. Dinkler, Chief of Staff, at 202-712-1150.

Sincerely,

Donald A. Gambatesa
Inspector General

Enclosure

cc: The Honorable Kay Granger, Subcommittee on State, Foreign Operations, and Related Programs, Committee on Appropriations

U.S. Agency for International Development
1300 Pennsylvania Avenue NW
Washington, DC 20523
www.usaid.gov/oig

USAID Office of Inspector General's Responses to Questions for the Record
House Appropriations Subcommittee on State, Foreign Operations, and Related Programs
"Oversight of U.S. Civilian Assistance for Afghanistan" Hearing

July 15, 2010

Questions for the Record from Chairwoman Lowey:

USAID Program Oversight and Accountability

- ***Has USAID taken steps to implement your recommendations and provide better documentation, monitoring, and inspection of U.S. Government programs in Afghanistan?***

USAID has been diligently addressing our audit recommendations in Afghanistan. Of the 128 recommendations we have made thus far, all but 24 have been implemented. Over the past year, we have seen fewer recommendations involving data quality problems; however, program monitoring continues to be identified as an area of concern in a consistently large share of our audits.

- ***Have you seen evidence that the increase in personnel, known as the "civilian surge," is helping address some of these oversight challenges?***

It is too soon for us to assess the effect of the civilian surge in addressing the oversight challenges we have previously identified. We have noted several factors, however, that might limit the effectiveness of this new surge of civilian personnel. These factors are discussed in our response to the following question on limitations that USAID staffs face in the field. Until areas are secured for travel to project sites (especially in the south and east, where much of the new funding is directed), we do not expect to see a significant impact from the surge.

- ***Is there an optimum number of contract and program personnel that should be assigned to monitor project implementation?***

OIG has not conducted any studies to determine the optimum number of USAID personnel that would be required to provide needed levels of monitoring and oversight of projects and contracts.

- ***Does USAID have the right staffing expertise in the right places in Afghanistan?***

We have not performed an overall assessment of USAID's staffing expertise in Afghanistan. However, the audits we have conducted to date have shown mixed results for USAID in this area.

For example, the Alternative Development Program, South and West, completed construction of a commercial farm, billed for restricted commodities such as pesticides and seeds without prior approval from the mission, and collected revenue under the program without properly returning funds to the mission. This example illustrates how the lack of oversight of this program adversely affected program implementation.

The poor management practices we have seen in Afghanistan involving contracts and programs are often associated with weaknesses in staff training. USAID employees have sometimes lacked the experience and training they need to fulfill their responsibilities. Our November 2009 audit of USAID's efforts to enhance Afghanistan's power sector, for example, recommended that USAID technical representatives receive additional training on the proper preparation of statements of work.¹ Project implementation had suffered from an ambiguous statement of work that did not require specific deliverables with concrete delivery dates.

- ***What limitations does USAID staff face in the field and in provincial reconstruction teams (PRTs) when seeking to provide proper oversight of programs and projects?***

OIG has observed that some USAID personnel who have been assigned to PRTs have little USAID experience, lack familiarity with government contracting regulations, and are unclear about their roles and responsibilities. Further, OIG has learned that assignments to PRTs are made without input from USAID management and that this lack of coordination leaves some USAID programs short-staffed.

We recommend that (1) USAID and the State Department consult with one another and coordinate on the types of personnel assigned to the PRTs, (2) PRT members receive training on USAID's contracting policies and procedures, and (3) PRT members' roles, responsibilities, and chain of command be clarified.

- ***What administrative changes should be implemented to provide more autonomy and responsibility to staff in the field?***

Although we have been told that USAID is interested in delegating more authority to its field-based staff in Afghanistan, OIG has not conducted any work to determine the status of these initiatives or assessed the results of any initiatives that have been implemented.

Oversight of Governance and Government Capacity Building Programs

- ***The recent OIG human resources and logistical support report states that the contractor did not have a sustainability plan or an exit strategy for future support of the data system they put in place at the Ministry of Public Works. Is this a consistent problem and do you believe USAID is addressing this issue?***

Several of our other audit reports have also highlighted sustainability concerns. We have seen these issues, for example, in water and sanitation projects, power sector activities, and higher education activities. In some cases, resolution of these issues is outside USAID's control. For example, USAID has few options for resolution if the sustainability concerns stem from security issues or the Afghan Government's inability to provide future funding for maintenance and support.

¹ "Audit of USAID/Afghanistan's Power Sector Activities Under Its Afghanistan Infrastructure Rehabilitation Program" (Audit Report No. 5-306-10-002-P), November 10, 2009.

- ***Since 2003, the USAID IG has been auditing and reviewing the effectiveness and sustainability of governance and capacity building programs. What progress is being made in terms of the ability of the Government of Afghanistan to manage donor resources?***

The Government of Afghanistan has set a strategic framework for the country's overall development and plans to develop more specific strategic guidance for development in particular sectors. Donors can use these strategic documents to help direct contributions to priority development areas for Afghans.

The U.S. Government has taken several steps to strengthen the Afghan Government's ability to manage donor resources. It has established an accreditation process for Afghan ministries to receive direct assistance and worked to increase the capabilities of ministries that do not initially meet requirements. The U.S. Government has also supported the establishment of a Monitoring and Evaluation Committee on Corruption, composed of Afghan and international experts; played a leading role in the Major Crimes Task Force; and worked with Afghanistan's judiciary to reduce corruption.

An assessment of the Government of Afghanistan's Control and Audit Office (CAO), expected to begin in August 2010, will identify technical assistance required to make the CAO an independent, professional audit office. OIG will serve in an advisory capacity to help the USAID contractor design the program of assistance to the CAO.

Notwithstanding these efforts, we continue to have concerns about the Afghan Government's ability to manage and appropriately track donor resources. We are particularly concerned about oversight of U.S. funds when the funding is comingled with funds from other sources, as is the case with contributions to the Afghanistan Reconstruction Trust Fund. In these instances, we cannot track USAID funds to their final uses—a key step in ensuring that funds are not inappropriately diverted.

- ***Are these efforts having an impact on accountability, governance and program implementation?***

We cannot assess the overall impact of these efforts on the Afghan Government's accountability, governance, and program implementation. However, we are troubled by recent reports regarding corruption and the protection of senior Afghan Government officials from investigation and prosecution.

- ***What more could the U.S. Government do to ensure the most capable people are brought into key ministries?***

Ultimately, creating a capable, professional Afghan civil service involves implementing merit-based selection systems, vetting candidates or conducting background investigations as appropriate, insulating employees from political pressures, and devising performance-based promotion and compensation systems. Although the U.S. Government can support such efforts, it cannot create the political will to undertake them.

- ***Are there particular ministries that show promise? Are there others that need additional support and attention in the coming year?***

USAID has provided direct financial assistance to the Ministries of Public Health, Finance, and Communication and Information Technology. Before providing this assistance, USAID/Afghanistan's Office of Financial Management completed assessments of all three ministries and found them eligible for direct receipt of USAID funds. The assessment includes a determination that a ministry has the personnel, accounting systems and procedures, and procurement procedures in place to responsibly manage USAID funds. Under the agreements that USAID has entered into with these ministries, OIG has audit rights over the use of USAID funds. However, USAID OIG has not completed any assessments of these ministries or their USAID-supported efforts and cannot comment on their effectiveness at this time. We plan to audit USAID's direct assistance to the Ministry of Public Health in support of its health services program in the near future.

We understand that USAID has conducted assessments of three other ministries for possible future direct financial assistance: the Ministry of Education; the Ministry of Agriculture, Irrigation, and Livestock; and the Ministry of Rural Rehabilitation and Development. USAID OIG plans to review USAID's assessment process to determine whether any of the criteria or processes for approving organizations for awards require further strengthening.

Given USAID's past and anticipated investments in these six Afghan ministries, we would like to see that they receive the support and attention they require to institute and maintain appropriate internal controls and accountability systems.

- ***What is your assessment of the Afghan Financial Management Information System and is it sustainable?***

We have not assessed the performance of the Afghanistan Financial Management Information System or its sustainability. However, an August 2009 assessment by USAID/Afghanistan concluded that the Ministry of Finance, the system owner, had adequate financial management capacity to effectively and efficiently record, account for, and report on funds that may be provided directly by USAID to the Government of Afghanistan.

- ***What controls are in place to ensure resources are not diverted from their intended recipient?***

USAID has instituted controls to ensure that assistance funds are not diverted from their intended purposes, such as the following:

- USAID conducts preaward surveys of contractors or grantees with which it has not previously worked—such as local nongovernmental organizations and Afghan Government ministries—to ensure that they have the necessary accounting systems and experienced personnel to manage USAID funds responsibly.
- Accounting and audit provisions of contracts, grants, and cooperative agreements require annual financial audits and mandate that contractors and grantees maintain

records showing how USAID funds were used. These provisions must also be included in any subawards.

- USAID has established requirements for vouchering and financial reporting for contractors' advance funding and reimbursement. Vouchers are examined by a specialist and then forwarded to a certifying officer for payment.
- USAID employees supervise most assistance projects, except for construction projects, which are typically overseen by architectural and engineering firms. They perform periodic monitoring through site visits, meetings, and reviews of program progress reports, among other means.

To help ensure that U.S. funds are properly spent, OIG also does the following:

- Conducts fraud education activities to inform USAID staff, contractors, grantees, and subrecipients about fraud indicators and to encourage them to contact OIG if they encounter any indications of fraud or misconduct. Investigative leads are often provided to OIG following these activities. In the past 90 days alone, we have provided these briefings to more than 500 people.
- Conducts investigations in response to credible allegations and leads.
- Conducts performance audits that focus on whether USAID programs are achieving the goals they were designed to achieve.
- Presides over financial audits of all USAID expenditures except those flowing to public international organizations (PIOs) such as the United Nations and World Bank. (PIOs are responsible for auditing the end uses of these funds.)

Oversight of Energy Programs

- ***What is the current status of the Kajakai Dam and Kabul power plant projects? How do such discrepancies come about between project targets and the end product?***

OIG has not examined the Kajakai Dam and Kabul power plant projects since November 2009, when we issued an audit report of USAID/Afghanistan's power sector activities under its Afghanistan Infrastructure Rehabilitation Program.² At the time, both projects were significantly behind schedule. Work on the Kajakai Dam power plant should have been completed by June 30, 2008, but the contractor was more than 1 year behind schedule at the time of our audit field work. Meanwhile, USAID's contract for work on the Kabul power plant specified that it would be ready to provide 70 megawatts of power by the end of December 2008, with an additional 35 megawatts to be provided by April 2009. However, only 12 megawatts of power were available to add to the power grid at the end of April 2009. In these cases, project delays stemmed from a number of factors:

² Audit Report No. 5-306-10-002-P, November 10, 2009.

- Subcontractor performance problems
- Transportations difficulties
- Land titling issues
- An ambiguous statement of work
- Delays in subcontractor award and mobilization
- A lack of mission onsite quality assurance
- Inconsistent communication between the contractor and the mission
- Delays in obtaining approvals from the contracting officer
- Security issues

- ***To what extent can you explain such problems as being a result of inadequate USAID staffing levels or the lack of site visits due to security concerns?***

We believe that staffing constraints and site-visit limitations are factors in at least some situations involving energy projects, including the Kabul power plant project on which we reported in our November 2009 audit.³ If USAID had had additional personnel, the USAID mission might have been able to develop a more refined statement of work for the project and approve key contract modifications more speedily. Customary practice should have dictated that rather than conducting regular site visits, the mission should have dedicated an onsite engineer to monitor power plant progress. Had the project been assigned an onsite engineer, the mission might have been aware of problems sooner and had the opportunity to take corrective action.

- ***To what extent are contractors required to report regularly on project implementation?***

Contractor and grantee reports on progress and performance are required quarterly and annually. These reports should document progress in completing approved annual work plans, and specifically discuss progress toward achieving specified indicator targets. Occasionally, however, these reports are not produced, for reasons such as the fluid nature of projects and programs in Afghanistan, the challenges of working in an insecure environment, and the pressure to achieve goals that are not always realistic. Also, work plans often stall because USAID has not approved them promptly. All of these factors adversely affect USAID's ability to report on agreed-upon goals and contributes to the devolution of annual and quarterly reports into activity reports that fail to reflect what the contractor or grantee should be achieving by specific dates.

- ***When you refer to "questionable claims" in your reports, what does that mean?***

"Questionable claims," or questioned costs, are those costs that seem to violate laws or regulations, are not adequately documented, or appear to be excessive in relation to services or products provided. Our November 2009 audit of USAID/Afghanistan's power sector activities uses this term to refer to a subcontractor's charges on the project. At the time, USAID's prime contractor for the project (Louis Berger Inc./Black and Veatch Special Projects Corp. Joint Venture) withheld payment to a subcontractor (Symbion Power) on two

³ Site visits are part of contract or activities management, and 65 percent of all audits conducted in Afghanistan reference problems in these areas.

invoices. The prime contractor did so because it questioned the percentage of completion that the subcontractor had claimed on these invoices and did not believe that the subcontractor could substantiate its claims.

- ***To what degree are contractors responsible for ensuring that subcontractor payment and outcome claims are legitimate?***

Contractors are directly responsible for ensuring that subcontractor payment and outcome claims are legitimate. USAID is, in turn, responsible for ensuring that its contractors are knowledgeable about their subcontract oversight responsibilities and have the systems and resources in place to execute these responsibilities properly.

In our audit of Afghanistan's power sector activities, we noted that the contractor had charged USAID for subcontractor costs that the contractor had not, in fact, paid the subcontractor because of disputes and questionable claims in subcontractor invoices. The contractor should not have billed USAID for these costs until these disputes had been resolved. In this instance, OIG recommended that \$2.1 million be recovered from the contractor. USAID subsequently recovered the money.

Oversight of Construction Programs

- ***What steps has USAID taken to adapt programs to learn from its past mistakes and build appropriate engineering capacity and technical assistance into new construction contracts? What oversight mechanisms have been established to ensure that work is being completed and that these buildings and roads are usable?***

Although this question might be better answered by the Agency, we noted in our audit of USAID/Afghanistan's Human Resources and Logistical Support Program that several USAID-constructed buildings did not meet seismic standards and that the mission had not provided quality assurance and engineering oversight for all construction projects.⁴

With regard to USAID's goal to provide quality assurance and engineering oversight on USAID construction projects, the program has succeeded in providing these services for projects initiated by the mission's Office of Infrastructure, Engineering and Energy. However, the mission has not been as successful in providing quality assurance services for construction projects initiated by other program offices within the mission.

In November 2008, USAID/Afghanistan issued a mission notice requiring acquisition and agreement instruments to include compliance with construction quality assurance requirements. However, not all of the mission's construction projects have benefited as much as anticipated from quality assurance services, onsite inspections, and monitoring services. Further, despite the office's quality assurance requirements for building

⁴ "Audit of USAID/Afghanistan's Human Resources and Logistical Support Program" (Audit Report No. 5-306-10-007-P), March 31, 2010.

construction, some construction projects are still not explicitly covered—notably subcontracted activities and road projects.

In the instances we identified in our audit, the projects lacked oversight and quality assurance on construction projects because (1) the program office did not understand the need for engineering oversight during construction, (2) mission guidance did not specifically include subcontract instruments, (3) frequent turnover of mission staff resulted in an uneven application of quality assurance requirements, (4) the mission lacked a comprehensive and complete database of all USAID construction projects, and (5) the mission had no requirement to obtain quality assurance services for road construction. The negative effects of the lack of appropriate engineering oversight can be measured in terms of risk of death or injury resulting from defective construction, the high cost to demolish and rebuild defective work, and the delay in providing intended benefits to project beneficiaries.

As a result of our audit, USAID/Afghanistan's road team is drafting procedures for providing appropriate engineering oversight and quality assurance services to specific types of roads. USAID also plans to allow mission engineers and designated representatives to communicate directly with contractors concerning deviations from approved engineering designs.

- ***The civilian surge has led to an increased number of USAID and State Department personnel. Is appropriate engineering staff being hired and sent to Afghanistan to oversee these types of programs?***

USAID/Afghanistan has hired such staff for its Office of Infrastructure, Engineering, and Energy and has arranged to acquire construction management and quality assurance services from a contractor. OIG's audit of USAID/Afghanistan's Human Resources and Logistical Support Program concluded that quality assurance services had been provided appropriately to projects initiated by the Office of Infrastructure, Engineering, and Energy and made recommendations to improve quality assurance for construction projects initiated by other mission offices. Subsequently, a July 2010 mission order established uniform quality assurance procedures for all USAID-supported construction programs.

IG Capabilities

- *As USAID's program in Afghanistan represents at least half of all economic aid to the country, do you believe you have sufficient staff in-country?*

OIG has increased its staff presence in Afghanistan. At the end of fiscal year (FY) 2009, we had only two permanent staff in-country and audited USAID's programs primarily with staff on temporary duty from our Manila office. As of August 2010, we will have nine direct-hire staff in Afghanistan (seven auditors and two investigators), and we are in the process of hiring up to five Foreign Service Nationals to provide audit, investigative, and administrative support. We will continue to supplement our efforts in Afghanistan with temporary support for our Manila and Washington, DC, offices on an as-needed basis.

We believe that this staff level will be sufficient to execute an effective audit program. Given the volume of civil and criminal allegations that we have been receiving, however, we expect to expand our investigative presence further in the coming years. We are now seeking Department of State approval to place two additional U.S. direct-hire investigators in Afghanistan.

- ***How do the various IGs (State, USAID, DOD, and SIGAR) collectively determine the scope of work so that there is no duplication of effort?***
- ***Is there coordination of oversight of programs to ensure there is no unnecessary duplication of effort?***

Interagency coordination is an important—and extensive—element of the oversight process. USAID OIG chairs the Afghanistan-Pakistan Subgroup of the larger Southwest Asia Joint Planning Group, which meets periodically on oversight assignments to avoid duplication of effort. In addition to USAID OIG, the subgroup includes OIG representatives from the Department of Defense and Department of State, as well as representatives from the Special Inspector General for Afghanistan Reconstruction (SIGAR) and the Government Accountability Office. Together we share information; coordinate planned audits, reviews, and inspections; and prepare joint oversight plans. Our FY 2010 audit plan can be viewed at the following link:

http://www.usaid.gov/oig/public/plans/comprehensive_oversight_plan_for_afghanistan_and_pakistan_fy_2009_and_fy_2010.pdf

If participating agencies indicate plans to audit similar programs, we discuss whether a particular agency should take the lead or whether there are opportunities to audit different aspects of the program. In addition, oversight organizations based in Afghanistan coordinate their efforts on the ground and meet regularly in Afghanistan to share information and oversight plans.

USAID OIG also works collaboratively with other law enforcement entities, including SIGAR, the Federal Bureau of Investigation, the International Contract Corruption Task Force, and Afghan police officials. As a member of the National Procurement Fraud Task Force, OIG works through the task force to assist the Department of Justice in addressing USAID-related procurement and grant fraud in Afghanistan.

Direct Government-to-Government Assistance

- ***Can you describe what USAID has done to safeguard funding provided directly through the Ministries of Health and Finance?***

USAID/Afghanistan conducted an assessment in 2008 and concluded that the Ministry of Public Health had adequate financial management capability for effectively and efficiently recording, accounting, and reporting on funds provided by USAID to the ministry. A 2009 assessment reached a similar conclusion for the Ministry of Finance. The controls described in response to a previous question (What controls are in place to ensure resources are not diverted from their intended recipient?) apply to these ministries as well.

OIG plans to conduct a performance audit in FY 2011 to determine whether the Ministry of Public Health is successfully implementing basic and essential health services in support of the Partnership Contracts for Health Services Program. We also expect to perform financial audits of this program annually, at a minimum. As we previously mentioned, OIG plans to

conduct an audit of the mission's processes for assessing the capabilities of Government of Afghanistan ministries to responsibly manage USAID funds.

- ***What process is USAID undertaking to assess the capacity of these ministries to receive direct assistance?***

USAID conducts preaward surveys of the ministries to determine their capacity to appropriately monitor funding provided. We plan to review USAID's preaward survey and certification process to determine whether the criteria for approving organizations for awards require further strengthening.

- ***What could USAID or other U.S. Government agencies do to increase the capacity of Afghan ministries that are being considered for direct government-to-government support?***

USAID could provide long-term training and support to increase the capacity of such ministries; embed experts within these ministries; help the ministries strengthen their internal controls; institute other controls within the ministries to mitigate the risk of providing government-to-government support; and work cooperatively with other donors to increase the capacity of selected ministries.

In addition, USAID could help strengthen Afghanistan's supreme audit institution (SAI) and help change Afghan laws to make the SAI more independent. USAID will attempt to accomplish these objectives in a 4-year effort beginning this calendar year. Another possibility would be to help selected ministries establish their own offices of inspector general, although that would require legislation and may be too ambitious a goal for the relatively few trained Afghan personnel available to perform such work.

- ***Do you believe that this oversight process is adequate? What more should USAID do to safeguard these resources? Have you audited, or plan to audit, these funds to ensure that they have been used for their intended purposes? What programmatic reviews have been done to ensure that the program outcomes are achieved?***

USAID OIG plans to review USAID's preaward survey and certification process to determine whether the criteria for approving organizations for awards require further strengthening. In addition, we plan to audit USAID's direct assistance to the Ministry of Public Health in support of its health services program.

- ***What oversight role does USAID have in reviewing programs and projects of the Afghan Reconstruction Trust Fund?***

It is our understanding that U.S. Government representatives participate in quarterly meetings of the Afghanistan Reconstruction Trust Fund (ARTF) and receive regular reports on the progress of ARTF programs and activities. ARTF provides the U.S. Government with annual financial statement reports and audit reports by external auditors on procedures and controls used in administering the ARTF funds. ARTF provides project-specific audits to

donors upon request and has advised USAID that it will post all audits of ARTF projects on the Internet in the future.

- ***Can the USAID IG audit funding channeled through the Trust Fund?***

USAID OIG does not have audit or investigative rights over USAID funding channeled through ARTF. USAID's agreement with ARTF does not authorize OIG to directly access the personnel, records, or program information necessary to conduct an audit of an ARTF project or the activities of an ARTF subrecipient.

ARTF comingles donor funds, and USAID contributions cannot be segregated from contributions from other sources. Nevertheless, USAID communicates preferences about the level of support it would like to provide for particular ARTF projects, and ARTF has honored all of USAID's project support preferences to date. In the future, OIG could attempt to negotiate with subrecipients to obtain audit rights over certain ARTF project activities that are exclusively funded by USAID. However, USAID has not been the exclusive contributor to any ARTF project up to this point.

Questions for the Record from Ranking Member Granger:

Afghanistan Reconstruction Trust Fund (ARTF)

- ***Please provide clarification as to whether USAID/OIG has audit rights to the Afghanistan Reconstruction Trust Fund (ARTF). If the OIG does have audit rights, what audits are planned or have taken place? If the OIG does not, please provide a description of how these rights will be pursued. If the OIG does not plan to pursue direct audit rights, what other methods of oversight will be pursued?***

The World Bank has audit rights over the ARTF, as does the Government of Afghanistan. USAID OIG does not have audit rights over USAID funding channeled through ARTF. USAID's agreement with ARTF does not authorize OIG to directly access the personnel, records, or program information necessary to conduct an audit of an ARTF project or the activities of an ARTF subrecipient.

ARTF comingles donor funds, and USAID contributions cannot be segregated from contributions from other sources. Nevertheless, USAID communicates preferences about the level of support it would like to provide for particular ARTF projects, and ARTF has honored all of USAID's project support preferences to date. In the future, OIG could attempt to negotiate with subrecipients to obtain audit rights over certain ARTF project activities that are primarily or exclusively funded by USAID. However, USAID has not been the primary or exclusive contributor to any ARTF project up to this point.

OIG's investigative division has established a working relationship with the Integrity Vice Presidency of the World Bank (IVP), which is responsible for investigating allegations of fraud, waste, and abuse related to World Bank projects such as the ARTF. We meet regularly with IVP members to discuss matters of mutual interest. We confer about projects

on which we can collaborate, such as joint fraud-awareness presentations and fraud reporting mechanisms for people managing AFTF funds.

Contract Oversight

- ***Does USAID distinguish any weaknesses in contracting versus grants or cooperative agreements? Have you identified any particular vulnerability in those mechanisms for programs in Afghanistan?***

Overall, we perceive that contracts are less vulnerable to waste and fraud than grants and cooperative agreements. USAID policy permits USAID staff to exercise operational control—day-to-day oversight and technical direction—over contractors but generally prohibits staff from exercising operational control over grantees. This opportunity for more intensive oversight may help prevent waste, fraud, and abuse. However, many factors strongly influence vulnerability to waste and fraud, regardless of the type of award, including the characteristics of the programs supported, environments in which these programs are implemented, and attitudes toward internal controls by those carrying them out.

- ***Does USAID have an ability to track who is receiving funds, from the subaward level through the final recipients?***

USAID routinely monitors expenditures by prime contractors and grantees, which by definition include expenditures by subcontractors and subgrantees. However, expenditures by subawardees are not normally identified separately in the vouchers and financial reports submitted by prime contractors and grantees.

- ***Who is responsible for vetting subcontractors or subgrantees? How do they determine that people receiving these funds are not terrorists, warlords, or individuals with corrupt backgrounds?***

USAID makes a responsibility determination (which includes determining whether recipients are qualified and eligible under law and regulation to receive an award) prior to awarding contracts and grants, and prime awardees make responsibility determinations for subawardees. USAID expects to begin using a contractor vetting system soon that is based on a similar one used in Iraq; the system will access multiple intelligence and law enforcement databases and address terrorism as well as corruption concerns. USAID envisions that the contractor vetting system will be used to vet offerors for contracts and subcontracts valued at \$150,000 or more.

Civilian Uplift

- ***Are staffs equipped with the right skills to properly oversee and manage foreign assistance dollars? Do they receive sufficient training including training specifically related to corruption?***

USAID employees have sometimes lacked the experience and training they need to fulfill their responsibilities. Our November 2009 audit of USAID's efforts to enhance Afghanistan's power sector, for example, recommended that USAID technical representatives receive additional training on the proper preparation of statements of work, because project implementation had suffered from an ambiguous statement of work that did not require specific deliverables with concrete delivery dates.

To address the heightened risk of fraud and corrupt practices in Afghanistan, OIG has delivered fraud awareness briefings to hundreds of USAID employees, contractors, and subrecipients. In the past 90 days alone, OIG has given fraud awareness briefings to more than 500 people in Afghanistan. These sessions provide information on ways of identifying fraudulent activities and internal control systems that can help prevent fraud.

- ***Is there sufficient support from contracting officers in Kabul and in Washington?***

OIG has not performed any audits that specifically assess the adequacy of support from contracting officers.

- ***Are there reporting mechanisms that alert staff to problems as they occur, not after the problem?***

We have many routine reporting mechanisms that may alert mission staff to problems as they occur. First, contractors and grantees must prepare quarterly progress reports for the mission. These reports are to report against indicator targets; any delays in meeting these targets may be early signs of problems. In addition, monitoring visits are carried out by mission personnel and increasingly by independent monitoring and evaluation contractors (contractors that the mission engages to provide monitoring and evaluation services when security concerns prevent mission personnel from carrying out field visits themselves). Further, the informal contact carried out between the implementer, host government, and mission personnel should alert mission staff to problems as they occur, even if routine reporting mechanisms may not identify underlying problems.

Monitoring and Evaluation

- ***Is there a sufficient focus on monitoring and evaluation of programs in Afghanistan so that USAID can uncover corruption as well as performance problems?***

As noted above, the mission and some of its implementers engage independent monitoring and evaluation contractors to perform these services. In addition, contractors and grantees

are required to follow extensive USAID guidance on indicator integrity, data verification, and periodic reporting—all designed to spotlight performance problems.

Uncovering corruption is a more difficult task, as corruption often involves collusion to hide the improprieties that are taking place. OIG makes uncovering fraud and abuse a key aspect of every audit it performs. In addition, the mission develops, in coordination with OIG, an annual audit plan for its contracts and grants to ensure that required audit coverage is carried out. OIG also performs a periodic risk analysis of the mission's contract and grant portfolio to prioritize and plan for additional audit coverage of contracts and grants that may be more susceptible to fraud and corruption. OIG auditors and investigators work closely together to share information and conduct follow-up work when necessary.

- ***Do you think that there are sufficient requirements in place that require both financial and performance reporting for contractors and grantees in Afghanistan? Does that system go down to the subawards level? What weaknesses need to be addressed?***

Requirements are in place for both financial and performance reporting for contractors and grantees in Afghanistan. For instance, financial audits are performed for all indigenous contractors and grantees that spend more than \$300,000 in a fiscal year. U.S.-based contractors and grantees are generally covered by organizationwide financial audits conducted in the United States, and OIG conducts specific audits in Afghanistan when the risk appears unacceptably high on contracts and grants. In some cases, we have conducted concurrent audits—audits performed while contracts or projects are under way—as often as every 90 days when risks appear high and when large sums of money are being spent.

With regard to subawardees, the prime implementer generally has the responsibility to ensure that subawardees receive audit coverage. OIG verifies that such coverage is carried out. In other cases, when OIG arranges for contract-specific financial audits, the scope of work will sometimes specify that key subawardees be audited at the same time as the prime. OIG believes that the oversight process for financial audits is generally adequate.

As for performance reporting, USAID has a highly developed system to obtain periodic information on the performance of its contractors and grantees. However, OIG has observed in Afghanistan (and other countries with high-profile programs) that this system does not always operate as designed. Political pressures sometimes result in unrealistic project goals or midstream changes to project goals and methods. As a result, project work plans are often in a state of flux, performance indicators are continually being adjusted, and pressures on implementers to achieve results in an insecure and dangerous environment are intensified. These factors sometimes complicate efforts to hold contractors and grantees completely accountable.

For example, a recent program was planned to be carried out primarily in the north and west of the country. After the program implementer had hired key personnel and established an office in northern Afghanistan, the focus of the program was summarily moved to the more volatile south, wasting the effort in starting up the program in the north and causing the resignation of at least one key program implementing official.

WEDNESDAY, JULY 28, 2010.

**OVERSIGHT OF U.S. CIVILIAN ASSISTANCE FOR
AFGHANISTAN**

WITNESSES

**RICHARD C. HOLBROOKE, SPECIAL REPRESENTATIVE FOR AFGHANI-
STAN AND PAKISTAN**

DR. RAJIV SHAH, ADMINISTRATOR, USAID

OPENING STATEMENT OF CHAIRWOMAN LOWEY

Mrs. LOWEY. Good morning. The Subcommittee will come to order. I am very pleased to welcome Ambassador Richard Holbrooke, the Special Representative for Afghanistan and Pakistan, and Dr. Raj Shah, the Administrator of the United States Agency for International Development (USAID), to share with us today the systems and processes to assure accountability of U.S. taxpayer funds, outline the joint U.S.-Afghan strategy to combat corruption, and describe mechanisms to coordinate the U.S. civilian-military strategy. We understand the difficult environment in which the men and women in Afghanistan work, and we appreciate their and your commitment to this very crucial effort.

Funding appropriated by this subcommittee for diplomacy, development and humanitarian programs plays a vital role in supporting our national security. Nowhere is this reality more evident than in Afghanistan, where the President has crafted an integrated civilian-military strategy to disrupt, dismantle and defeat al Qaeda.

Recent media reports of rampant corruption, concerns about billions of dollars in cash leading to the Kabul airport, alleged influence peddling, reported interference with and obstruction of corruption investigations by Afghan officials led this Subcommittee to defer consideration of the fiscal year 2011 request for funding for Afghanistan. Over the past 2 weeks, this Subcommittee held a series of hearings, briefings and meetings to assess the media allegations, current oversight procedures, and steps the U.S. is taking to address accountability, transparency, and oversight gaps. This Subcommittee has worked quickly and diligently to help assure the American people that their hard-earned tax dollars are not being squandered or mismanaged.

With sufficient unspent funds in the pipeline, this investigation has not delayed implementation of civilian programs in Afghanistan. Taking into account the total funding appropriated through fiscal year 2010, including yesterday's passage in the House of the Supplemental Appropriations Act for Fiscal Year 2010, there is funding, more than adequate funding in the pipeline, to continue development programs unabated through fiscal year 2011.

Several themes have emerged from our investigation. First, despite efforts by our government and reformers within the Government of Afghanistan, corruption is endemic both at senior and civil service levels, and undermines our mission in the country.

Second, oversight of programs by both the Afghan Government and the United States must be improved. Nearly everyone we heard from acknowledged the need for better trained investigators and auditors and for improved documentation of program goals and outcomes. As Secretary Clinton has stated, we must do a better job of monitoring and evaluating our contracts and grants to ensure they do not enable weak governance or inadvertently encourage corruption.

Thirdly, there is a desperate need to increase the capacity of both the civil service and judicial systems at all levels of government. The legal foundations are weak. Ministry officials are untrained. Oversight entities lack the capability and independence to perform their tasks. This vacuum of capacity fosters a culture of influence peddling and political interference.

Fourth, questions remain about the political will of President Karzai and the Government of Afghanistan to take the steps necessary for the civilian-military strategy to succeed.

While failure in Afghanistan is not an option, success can only be achieved if we and our Afghan partners share common goals. For many months, President Karzai has been saying the right things but have he and his government taken the necessary implementation actions? For example, the cabinet approved a bill that established a Special Tribunal to try officials accused of graft. Do you believe that this Special Tribunal will be given the necessary independence to move forward in an effective manner? Will the Afghan Parliament act on the legislation in a timely manner? What has been the response of the Government of Afghanistan when confronted with evidence of interference in corruption cases?

Just last week, the global community demonstrated its commitment to Afghanistan when nearly 70 representatives of foreign countries and organization attended the Kabul Conference. In a 10-page communique, the conference outlined dozens of commitments consistent with those proposed by President Karzai in his inaugural speech and at the London Conference to combat corruption and improve Afghan governance. How will the United States hold the Karzai government accountable to these commitments? What will the consequences be if the Afghan Government does not meet these goals?

During our hearing with the Inspector General and GAO, one witness testified, our plan is that all levels should consider capacity development at the forefront of any engagement by the United States. As Afghans take the lead in managing their government, it is vital that they are trained in technical skills but also professional and ethical standards by which they are expected to adhere.

Congress has provided hundreds of millions of dollars to increase the capacity of the Afghan Government and people. What has been achieved with this funding? Has the standard of the government's performance improved? Are finite goals and objectives in place? And are outcomes being evaluated to measure their success?

Last week, Treasury representatives shared with us some positive steps to strengthen fiscal management within the Ministry of Finance. This progress has taken years because of the great challenges, including lack of capacity, which is a critical element for our success in light of the Kabul Conference commitment to funnel half of all assistance through the Afghan Government, yet we don't have years to wait. We need to aggressively pursue capacity building measures so the Afghan Government can expand effective governance. What conditions and benchmarks must Afghanistan meet prior to the provision of 50 percent of funding through its ministries?

Our long-term success hinges on our ability to combat corruption and ensure accountability for government expenditures, build a capable military and police force in a state that has never had one, create a viable legal and economic foundation that will provide a safe and prosperous future for the men, women and children of Afghanistan, and enable the Afghans to sustain the civilian assistance programs we are working so hard to establish.

We have worked together. I want to continue to work with you both to ensure that we have the best prospects for success while assuring the American people that their funds are being spent in a transparent and accountable fashion.

Before we proceed, I would like to turn to my ranking member, Kay Granger, for her statement.

OPENING STATEMENT OF MS. GRANGER

Ms. GRANGER. Thank you, Madam Chair. Thank you for calling this hearing today on Oversight of U.S. Civilian Assistance for Afghanistan. The subcommittee has held, as you know, a series of hearings and briefings. Since our subcommittee markup, we have addressed a range of concerns, but many more important questions remain. As the subcommittee seeks answers, I remain committed to our efforts in Afghanistan because I believe they are critical for U.S. national security. At the same time, I am equally committed to ensuring that U.S. assistance is used as it was intended.

I am interested in hearing from our witnesses today about how investment on the civilian side will contribute to overall success in Afghanistan. In addition, the subcommittee needs to know that mechanisms are in place to ensure that funds are being and will be spent properly. I would like to thank our witnesses today for being here. Both of you play a critical role in executing the civilian strategy in Afghanistan, and I thank you for your service.

I believe the success of our civilian effort depends on three things. U.S. assistance programs must be focused on results. These funds must be spent in a transparent manner, as the chair said, free from corruption, waste, fraud and abuse; and we must be conducting our efforts alongside a reliable partner.

Let me explain more fully. First, it must be clear that civilian investments are achieving tangible results. A focus on achieving measurable outcomes needs to be part of the culture in U.S. agencies. This should funnel all the way down to the implementers, the Afghan Government, contractors, grantees, international organizations, and the multiple levels of awardees below them. I know that Administrator Shah is committed to focus on monitoring an evalua-

tion on USAID, and I hope that this is his top priority in Afghanistan.

Next, it is critical that U.S. assistance is spent in a transparent way, free from corruption, waste, fraud and abuse. There are several elements of the administration's strategy that seem particularly vulnerable. My first concern is with the Afghan First Initiative. The administration plans to expand this initiative and send billions of dollars through the Afghan budget.

While I certainly recognize the need to build the capacity of the Afghan Government, the ongoing allegations of corruption and illicit activity do not give me confidence that now is the time to subject U.S. funds to unnecessary risk. We must ensure that funds go to Afghan ministries for the right reasons and to achieve real results, not simply to meet an arbitrary goal of sending a certain percentage of assistance through the government.

In addition to increasing aid to the Afghan Government, the administration also plans on channeling more funds to internationally managed trust funds, but it is still not clear to me that those funds can be properly overseen and audited by the U.S. Government.

Another concern is whether U.S. staff are able to provide adequate oversight of assistance programs. This subcommittee has been quite generous in its support, allowing the tripling of staff in Afghanistan over the past 18 months. But increasing the number of staff does not necessarily mean that oversight is improving. It is difficult to determine if staff are able to ensure that contracts and grants are properly managed.

Finally, in order for U.S. efforts to be successful, we must have a reliable partner. The U.S. Government can place appropriate safeguards on our assistance dollars, but our efforts will not be successful without cooperation from our Afghan partners. It is the administration's responsibility to hold Afghan officials accountable for commitments made last week at the Kabul Conference. There must be a renewed commitment to the people of Afghanistan in order to build confidence in their government. That starts with the Afghan Government living up to its promises to do more on oversight, transparency and delivering results for the Afghan people. Simply making announcements and creating more bureaucracy will not improve the situation. The results must be clear.

In closing, I have described a long list of concerns, but I also know that the two witnesses before us today are highly skilled in diplomacy and development. I have confidence that you can address these issues. You need to make a strong case today so that the subcommittee can have confidence in providing the funds necessary and the oversight required to support the President's strategy in Afghanistan.

Thank you, Madam Chair.

Mrs. LOWEY. Thank you. Gentlemen, your full written statements will be placed in the record. Feel free to summarize in your oral statements. I am sure there will be many questions. We will proceed as you desire, and we will proceed with Ambassador Holbrooke.

OPENING STATEMENT OF AMBASSADOR HOLBROOKE

Ambassador HOLBROOKE. Madam Chairwoman, it is a great honor to appear before you and your colleagues again today and especially to testify alongside Dr. Raj Shah, the Administrator of USAID. I thank you and your colleagues for your support yesterday in the important supplemental vote. We are very mindful of the difficulties presented by such votes, and we greatly appreciate your support.

Before I begin, Madam Chairwoman, I would like to extend on behalf of the administration our deepest condolences to the victims of the plane crash in Islamabad today, Airblue Flight ED 202. I understand from our embassy in Islamabad that the smoke is visible throughout the city. We hear there is going to be a national day of mourning. There are apparently two Americans who were on that plane. And I just wanted to express on behalf of the U.S. Government and the administration our deep condolences.

Secondly, with your permission, Madam Chairwoman, I would like to make a brief comment about the recent leaks that were from WikiLeaks. To be clear, as President Obama said yesterday, that, first of all, the leaks themselves are pretty appalling. And for somebody like myself who has been in and out of the government for over 40 years, in fact, as an author of one of the volumes of the Pentagon Papers, I have lived through something similar before, I just find it inexplicable that people would take the oath of office to the United States and violate it in such an extraordinary way.

Having said that, Madam Chairwoman, I want to underscore what President Obama said yesterday, that there is nothing in these documents, most of which date way back to the previous administration, that should change anyone's judgments about the situation in Afghanistan and Pakistan. We have confronted these issues for a long time, and I do not think that they revealed anything which we had not discussed in detail during our policy reviews last year. And I will leave it at that, just to make clear how deeply we are upset by the leak but how there is nothing revealing in them that changes things.

Madam Chairwoman, I listened carefully to the statements of you and Congresswoman Granger, and I would just like to make a few comments in addition to the testimony which we are submitting for the record. First of all, we share your commitment on the issue of corruption, governance and effectiveness. We have worked as partners with your subcommittee now since we came into office, and we are very grateful for your involvement in shaping the correct appropriations for both countries. In personal terms, I just want to state that as an occasional columnist for The Washington Post, I addressed these same issues as a private citizen. And when we came into office, we discovered that almost nothing had been done about them. We have here on the side of the room four poster boards which at the appropriate time Dr. Shah and I and our colleagues would like to brief you on because I think they will show that from the very beginning of this administration, we were taking steps, creating task forces, and working closely with the government in both Pakistan and Afghanistan to deal with this problem. We knew that if corruption isn't dealt with, other things won't

succeed. We had stated that it was a malignancy that could destroy everything else we were doing.

In this, we ran shoulder to shoulder with the military. David Petraeus and I had talked about this the very first time we met, and we are working together. The military has set up Task Force 2010, headed by Rear Admiral Kathleen Dussault to deal with that. I believe you have met with Admiral Dussault, so you know the work she is doing. And we will have USAID and State Department personnel assigned to Task Force 2010.

In addition, we have the many measures which Dr. Shah and I will outline in a moment. And I do want to underscore our very deep commitment.

Also, we have this extraordinary interagency team set up in the State Department. And with your prior permission, we brought with us today representatives of six of the 10 agencies we work with. The ones that are not here are the FBI, the Agriculture Department, the CIA, and the Office of the Secretary of Defense. But I would, with your permission, like to ask the team behind us just to stand as I mention their names so that you know who they are.

The first person, who is not on our team but you all know very well, is Assistant Secretary of State Rich Verma. Next to him is one of my deputies, Dan Feldman. Next to him, our senior deputy, Frank Ruggiero, just returned from Kandahar. I asked him to come here today with his boots full of dust, but unfortunately, he cleaned up for you. But I think most of you have visited him in Kandahar. Next to Frank, Rami Shy, our Treasury representative, who has done a phenomenal job. I hope we will get a chance to address that. Next to Rami, Matt Stiglitz from the Department of Justice. Next to Matt, Shannon Darcy, who has returned from Afghanistan as one of our two AID representatives. Next to Shannon, Colonel Rose, one of our two military representatives. And in the second row, our new Congressional Liaison from State, Greta Lundeberg. Next to Greta, Ashley Bommer, who you all know is focused on communications. Next to Ashley, Matt Asada, David Adams from the Congressional Bureau, Jennifer Chartrand. And next to her, from the Department of Homeland Security, Raul Ortiz. DHS has a very important role in all these issues. And next to Raul, Mike McNerney.

So with that, Madam Chair, I will yield to Dr. Shah and look forward to discussing the posters at the appropriate time. Thank you very much.

[The statement of Ambassador Holbrooke follows:]

**U.S. House Appropriations Committee
Subcommittee on State, Foreign Operations, and Related Programs
“Oversight Hearing on Corruption in Afghanistan”
July 28, 2010
Ambassador Richard C. Holbrooke
Statement for the Record**

Chairwoman Lowey, Ranking Member Granger, and other Members of the Subcommittee, thank you for the invitation to appear before you today to discuss our civilian and anti-corruption efforts in Afghanistan. I am pleased to be here with Dr. Rajiv Shah, and I would like to thank him for his support and commitment to the mission in Afghanistan.

I want to commend the Chairwoman and the Subcommittee for your constructive oversight. You have spent weeks and months asking good, tough questions. We are here today to help answer those questions; to be candid about the challenges that face us all; and to share what we're doing to best deal with the very challenging circumstances we face on the ground in Afghanistan.

I just returned from the Kabul Conference with Secretary Clinton and Administrator Shah. The trip reinforced to me why we're in Afghanistan in the first place. Our Core Mission in Afghanistan is to disrupt, dismantle, and defeat al-Qaeda. Today, more than 1,000 U. S. Government civilian employees from ten departments and agencies are serving in Afghanistan, in partnership with our military forces, to support this mission and bring stability to that war-torn land. As Dr. Shah and I have seen firsthand, these brave civilians are implementing a range of programs under extremely dangerous and challenging circumstances – rebuilding Afghanistan's once vibrant agricultural sector, and working with Afghan ministries to improve provision of health, education, justice, and other services outside of provincial capitals. As President Obama, Secretary Clinton, and General Petraeus have all emphasized, the civilian mission is crucial to the success of our overall strategy in Afghanistan. While our military mission in Afghanistan is not open-ended, our civilian commitment, with Congressional support, will continue, long after our combat troops come home.

Our commitment to implementing this new strategy includes a strong commitment to enhanced accountability and oversight of U.S. foreign assistance. While assuming greater risks in our implementation of programs, we are also committed

to providing oversight and to working with the Afghan government to improve the transparency and accountability of its ministries.

With this in mind, I'd like to turn directly to the issue of money flows leaving Afghanistan. This issue has received a good deal of media attention lately, and I would like to note that, while reports of cash leaving Afghanistan in large quantities via Kabul International Airport have been circulating for years, it was not until the past year that we had the experts in place in Kabul and in Washington to help the Afghan government develop an understanding of these flows.

Today, we assess that a substantial portion of this money leaving through the Kabul International Airport is officially declared – a major development made possible over the past year by our capacity building efforts in conjunction with the Afghan Ministry of the Interior. Additionally, Treasury and USAID are working hard to build Afghanistan's ability to track funds and enable the Afghan government and the interagency to combat any illegal money transfers. It is important to recognize that, without these successes in tracking funds and associated transparency, recent press reports on this topic would not have been possible. These efforts by our colleagues at Treasury and USAID increase transparency and help shine the light of day on corrupt transactions.

While some of the money leaving Afghanistan is likely the result of illegal activity, to date we have seen no significant evidence that the assistance money we spend in Afghanistan is being illicitly siphoned-off and shipped out of the country. To the contrary, given that Afghanistan is largely a cash-based economy with a small formal financial sector and a large trade deficit of nearly \$7 billion, we would expect to see large movements of cash legally cross the border to pay for imports. The goods and services going into Afghanistan are frequently paid for in cash. At present, only five percent of the Afghan population reportedly uses the formal financial system, while the remainder continues to use cash or barter. Those who do use the formal system may prefer to send their money overseas to countries with more developed banking institutions.

An important U.S. Government priority is to work with Afghan officials to increase the percentage of Afghans who use formal financial channels. One tool in this effort is the development of salary disbursements through mobile banking, which will increase the ability of Afghans to earn and transfer money without fear that this money will be lost or stolen. This innovation is currently being implemented in a pilot program for the salary disbursements of approximately 2,000 Afghan National Police, many of whom previously reported having upwards

of 30% of their salaries stolen from them when they were paid in cash. Our current efforts to improve banking, economic productivity, and the investment climate in Afghanistan will help to keep more money in Afghanistan, but these programs take root over time and require security.

Combating corruption is consistently raised in our bilateral meetings with the Government of Afghanistan. Anti-corruption efforts were addressed very directly at the London Conference in January and again just last week at the Kabul Conference. Attorney General Holder also raised the issue of anti-corruption with Afghan government ministers during his trip to Kabul last month.

President Karzai identified corruption as a major concern in his inaugural address and in subsequent shuras and we have underscored the importance of strengthening Afghan entities and authorities to prosecute corrupt officials who abuse the public trust. President Karzai and the Government of Afghanistan take this issue very seriously and have announced a number of tangible steps they will be taking to enhance transparency and accountability and crack down on this problem.

The Government of Afghanistan's most significant anti-corruption achievements in the past eighteen months have been the creation of (1) the Major-Crimes Task Force, a multi-ministry initiative responsible for investigating corruption, kidnapping and organized crime cases and preparing them for prosecution; (2) an Anti-Corruption Unit of prosecutors within the Attorney General's Office; and (3) an Anti-Corruption Tribunal of specially vetted judges to oversee high-profile cases. The tribunal has already received 79 cases from the Anti-Corruption Unit and current conviction rates stand above 90 percent. We support all three of these initiatives. Finally, a three-year, \$30 million USAID program supporting the High Office of Oversight (HOO) at central and provincial levels will be awarded later this year. Our assistance will help HOO develop its internal investigative and complaint tracking capacities and coordination across government agencies.

President Karzai issued a Presidential Decree in March 2010 addressing the corruption issues and action points agreed to in the London communiqué, such as: empowering the HOO as the lead on corruption issues in coordination with implementing partners; designating investigative powers for the HOO; and establishing a Monitoring and Evaluation Committee comprised of Afghan and international experts.

In another positive sign, President Karzai recently ordered the HOO to investigate all illegal business-related activities starting with those who are related to

government officials – including his own family members – and those related to his deputies, ministers, members of parliament, etc. At the recent Kabul Conference, Karzai also announced the publishing of additional public official asset declarations, the strengthening of the independence of the HOO through the development of the Monitoring and Evaluation Committee, and the establishment of a Special Ministers Court to prosecute government officials.

We are encouraged by the steps that President Karzai and his government have taken in recent months to follow through on these anti-corruption commitments. However, it is clear that more needs to be done. Afghanistan still needs an anti-corruption law with national jurisdiction that solidifies the Major Crimes Task Force. Fortunately, however, we do have many safeguards in place to help with this effort in the meantime. For example, with State funding and oversight by my office, the Treasury-led Illicit Finance Task Force has enabled the U.S. Department of Homeland Security to assist the Afghan Government in improving its capacity to interdict, investigate, and prosecute those involved in Bulk Cash Smuggling. By the end of 2010, USAID will have provided \$1.4M in critical start-up assistance to the HOO.

Along with these anti-corruption efforts, we need to ensure that the much-needed civilian assistance money we spend in Afghanistan is being used wisely. Key to these efforts have been four initiatives designed to maximize the effectiveness of our civilian assistance and include: (1) enhanced accountability and oversight; (2) implementation of smarter contracting; (3) decentralization of our assistance programs and platforms; and (4) increased direct assistance to Afghan ministries with proper vetting. Let me say a few words about each of these efforts.

(1) Accountability and Oversight: As Dr. Shah will explain in greater detail, USAID operates multiple oversight systems to ensure U.S. taxpayer money is spent properly. These include: pre-award conferences (to set oversight and reporting standards); regular monitoring and evaluation actions (to track expenses against work plans and services delivered); site visits; and reviews of payment claims (which require invoices for work completed). USAID and Mission staff throughout the country report on a regular basis to Embassy officials. We have already seen positive results from having more civilian personnel in ministries and PRTs – whether they are auditors, technical advisors, or Foreign Service officers. They can identify and report on specific allegations of corruption for further investigation.

We are also closely scrutinizing the process by which we award contracts to local entities, is at the Government of Afghanistan's request. Our goal is to ensure that our contracting procedures reinforce our support for the Afghan government and do not inadvertently distort local economic and political circumstances by disproportionately benefitting one party. This is a critical issue for the U.S. Government, especially for the Department of Defense (DoD) given the huge commitment of its resources. Secretary Clinton and Secretary Gates are both keenly focused on this issue. Under Admiral Mullen's leadership, a joint interagency task force, Task Force 2010, has been established to review all DoD contracts in order to limit contract-related fraud. As General Petraeus has stated, this task force will "follow the money" to ensure that taxpayer dollars do not end up subverting the war effort.

State and USAID are in the process of standing up a working group to participate in Task Force 2010 under the leadership of Ambassador William Todd, the Coordinating Director for Development and Economic Affairs at Embassy Kabul. While TF 2010 is focused primarily on DoD contracting, State and USAID representatives will play a vital role in ensuring Defense, State, and USAID are sharing information effectively, benefiting from each others' experiences, and proceeding with their contracting practices and reforms in a synchronized manner.

Recognizing that the substantial international assistance to Afghanistan has the potential to contribute to corruption, USAID currently has approximately 90 direct hire personnel in country to provide oversight to our programs. In FY10, we will be devoting rigorous resources to tackle corruption and diversion of assistance. For example, we have introduced performance-based implementation mechanisms and significantly decreased the overall percent of multi-year contracts to U.S. entities. Separately, Treasury and USAID perform advisory work with Afghanistan's central bank (DAB) to improve financial regulation and oversight of banks as well as informal banking networks called "hawalas." To date, 475 hawalas have been licensed by DAB, whereas no hawalas were licensed just three years ago. In fact, licensed banks as well as hawaladars now must submit monthly reports to the central bank or face fines or forced closure. Finally, Treasury is providing assistance to Afghan officials in creating and strengthening a financial intelligence unit (called FinTRACA) that helps to identify, monitor, and combat flows of illicit finance and links this to the multi-year USAID program to expand the Central Bank's capacity to supervise its growing financial system for safety and soundness.

We also support a robust role for the Special Inspector General for Afghan Reconstruction (SIGAR) and the USAID Inspector General in Afghanistan to

investigate vigorously any allegations of diversion of U.S. taxpayer funds from our programs. The SIGAR's role in evaluating internal controls and implementation of assistance programs, as well as State Regional Inspector General's expanded role shaping program design and implementation, has helped us reduce fraud and improve accountability.

(2) Smarter Contracting: We have done a full review of all major contracts and eliminated those that did not meet our objectives. In other cases, when contracting requirements cannot be adequately defined in advance, we work to break down contracts into smaller, more flexible bids. Additionally, we are attempting to shift away from large U.S.-based contracts to smaller, more flexible contracts with fewer sub-grants and contracts that enable greater on-the-ground oversight. These smaller contracts and grants will be managed by U.S. officials in the field, closer to the actual activity implementation, making it easier for those same officials to monitor and oversee projects to ensure the proper use of taxpayers' funds. In most cases these contracts are implemented by local Afghan personnel making them more efficient, helping to building Afghan capacity, and bypassing the middleman.

(3) Decentralization: Today, USAID officials posted to regional civilian-military platforms bring with them funding and flexible authorities to enhance the responsiveness of programs and support local Afghan priorities. This decentralized approach has enhanced development activities at the provincial and district level, and also proven to be more cost effective. Moreover, decentralizing assistance has made it easier for forward deployed USG civilians and their Afghan implementing partners to oversee and monitor the success of our programs and prevent fraud.

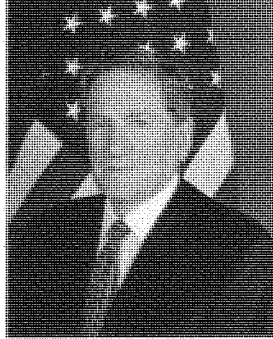
(4) Increased Direct Assistance: While expanding our sub-national footprint, we have also worked to streamline and enhance national level programs, following the successful models that were pursued in education and health in the early years of the war effort. To build Afghan institutional capacity, we joined the international community in committing to increase our direct assistance through Afghan government mechanisms. Our assistance is being directed away from large international contractors to proven Afghan programs, such as the National Solidarity Program and the World Bank-Administered Afghanistan Reconstruction Trust Fund. We also provide support for the Afghan Civil Service Commission to help professionalize the Afghan civil service and enable Afghans to assume greater responsibility for their country's economic development.

To receive direct assistance from the U.S., Afghan ministries must undergo a thorough process of certification in which they are evaluated and audited on a wide range of accountability and transparency standards. This direct assistance does not go to budget support. As a result of the rigors of the process, to date we have only certified three ministries – the Ministry of Finance, the Ministry of Public Health, and the Ministry of Communications and Information Technology. Our goal is to have 40 percent of U.S. assistance delivered through local entities (Afghan government or local NGO) by December 2010 and to certify six of the core Afghan ministries in the same time period.

Make no mistake; the mission ahead of us in Afghanistan will be difficult. We have lost over a thousand American lives, with many more wounded, and devoted significant resources to this effort aimed at destroying al-Qaeda and securing Afghanistan so it will never again be fertile ground for extremists who want to attack us again. We face many obstacles to achieving our civilian goals – including an unstable security situation and limited – but improving – Afghan government capacity. But, I believe we are now beginning to see initial results from these changes in approach in several areas, particularly in rebuilding the agriculture sector, perhaps our greatest non-security initiative.

For example, we have distributed discounted wheat to over 366,000 farmers and employed over 70,000 Afghans on short-term infrastructure projects. Additionally, Afghan apples and other fresh fruit are being air-freighted to India for the first time. We are also making strides in the areas of counternarcotics, where 50% of former poppy land is being converted to licit use, and in women's rights, where now more than 25% of members of parliament are female.

I look forward to continuing to work with you as you continue to conduct your critical oversight, and I stand ready to answer any and all of your questions. Thank you again for giving me the opportunity to be here today.



Richard C. Holbrooke

Special Representative

FOR AFGHANISTAN AND PAKISTAN

Term of Appointment: 01/26/2009 to present

Richard C. Holbrooke is the U.S. Special Representative for Afghanistan and Pakistan. He served as the United States Ambassador to the United Nations, where he was also a member of President Clinton's cabinet (1999-2001). As Assistant Secretary of State for Europe (1994-1996), he was the chief architect of the 1995 Dayton Peace Agreement that ended the war in Bosnia. He later served as President Clinton's Special Envoy to Bosnia and Kosovo and Special Envoy to Cyprus on a pro-bono basis while a private citizen. From 1993-1994, he was the U.S. Ambassador to Germany.

During the Carter Administration (1977-1981), he served as the Assistant Secretary of State for East Asian and Pacific Affairs, and was in charge of U.S. relations with China at the time Sino-American relations were normalized in December of 1978.

After joining the Foreign Service in 1962, he served in Vietnam (1963-66), including a tour of duty in the Mekong Delta for AID. He worked on Vietnam issues at the Johnson White House (1966-68); wrote one volume of the Pentagon Papers; and was a member of the American delegation to the Vietnam Peace Talks in Paris (1968-69).

He was Peace Corps Director in Morocco (1970-72), Managing Editor of *Foreign Policy* (1972-77), and held senior positions at two leading Wall Street firms, Credit Suisse First Boston (Vice Chairman) and Lehman Brothers (Managing Director). He has written numerous articles and two best-selling books: *To End a War*, a memoir of the Dayton negotiations, and co-author of *Counsel to the President*, Clark Clifford's memoir. He previously wrote a monthly column for The Washington Post.

He has received over twenty honorary degrees and numerous awards, including several Nobel Peace Prize nominations. He was the Founding Chairman of the American Academy in Berlin, a center for U.S.-German cultural exchange; formerly President and CEO of the Global Business Coalition, the business alliance against HIV/AIDS; and former Chairman of the Asia Society. Previous NGO board memberships have included the American Museum of Natural History, the National Endowment for Democracy, the Citizens Committee for New York City, the Council on

Foreign Relations, and Refugees International. He was Director Emeritus of The Africa-America Institute, was on the Advisory Board of MEMRI, was a Fellow of the American Academy of Arts and Sciences, and formerly a member of the U.S. Board of Governors of Interpeace, and a former Professor-at-Large, Brown University.

OPENING STATEMENT OF DR. SHAH

Dr. SHAH. Thank you. Madam Chairwoman, Ranking Member Granger and members of the committee, I appreciate the opportunity to be here to address this issue today. I also appreciate the chance to testify with Ambassador Holbrooke. The two of us traveled together recently with the Secretary of State to attend the Kabul Conference and to work on the range of issues that we will be discussing today. I share his "thank you" for your recent vote in support of funding for the Afghanistan strategy that the President has laid out and also his condolences on the tragic event last night in Pakistan.

This recent trip was an important opportunity to assess progress in the civilian effort and to observe the government of Afghanistan hosting a major international conference in which they laid out their strategy in areas where they commit to taking greater accountability. It is within the context of those commitments that we are able to review our programs and better understand the effect of the footprint of our programs and our spending in Afghanistan and against the President's strategy. I would like to just make a few remarks about our approach in the area of accountability and in the area of addressing the concerns that have been laid out.

First, we are looking across our portfolio and have been for 18 months, as Ambassador Holbrooke highlights, to achieve greater strategic clarity for each and every program that we support. Programs that are designed to achieve short-term stabilization have specific program metrics related to what success looks like in that area. Programs designed to achieve long-term economic development in sectors like energy, agriculture, water management similarly are designed around specific outcome metrics that help us ascertain whether or not they are successful over time based on outcomes and not simply process indicators.

We are also working to improve the analytics that underpinned these programs so that we can be more precise and more efficient in the use of U.S. taxpayer funds. For example, in programs aimed at achieving stability in villages and in rural communities, we are using tools like the District Stability Framework that allow us to gather through survey data a better understanding of what are the actual immediate sources of instability and how can our programming be focused to most effectively address those sources of instability in an effective way?

Third, we have put in place a number of efforts to improve accountability, including taking on a more aggressive approach to doing monitoring evaluation and oversight. This has been a major focus for me in my tenure at USAID across all of our countries and all of our program portfolios, but it is most acutely felt in Afghanistan and Pakistan where we have significant program investments. We are doing this by using our Multiple Oversight System, and we will talk about that when we have the opportunity to step through some of the charts that we hope to present.

No system is foolproof, but these systems are fairly robust in their ability to allow us to track the flow of funds and to understand process indicators that describe how those funds are being used in accordance with program goals. In addition, in Afghanistan

we have the most significant Inspector General and Special Inspector General efforts anywhere in the world, covering approximately 25 percent of the entire portfolio every year, and every 3 to 4 years covering all of our full extent of USAID investments. In terms of having the capacity to conduct more aggressive monitoring evaluations we have, as has been identified, more than tripled our staff presence and more aggressively used our Foreign Service national staff in country to get out, visit programs, and ascertain progress in a direct manner. We are also improving our direct engagement with the government of Afghanistan to this end and using third-party contract support to help do independent third-party evaluations.

Fourth, we are reviewing and improving our contract oversight process. We have a process that allows for very strong oversight on prime contracts and on subcontracts within those primes. There are specific areas where we are trying to improve oversight of subcontracts of subcontracts, and I am happy to discuss that as we go forward.

The efforts that have been articulated to improve direct assistance efforts to the government of Afghanistan are specifically designed to help build the capacity in the ministries, in the provinces and in the districts of the Afghan Government to ultimately allow us the opportunity to reduce dependency and over time to have a sustainable governing system that can work without our aggressive and direct engagement.

In all of these efforts, we abide by the strictest of rules with respect to compliance and recourse, which are the underlying fundamental things that drive our assessment of risks related to how we make those investments and which tools we use. In all cases, we have a range of tools, including host country contracting, direct budget support, and a range of intermediate efforts that can allow us to tailor the type of support we offer to the environment or the ministry capabilities that exist. And in each situation, we conduct thorough assessments of auditing capability and our ability to track money, resources and activity prior to making any such direct investments.

I look forward to sharing more about our process as we go forward.

I would like to conclude just by commenting that overall success will require improved governance at all levels in Afghanistan. I value the oversight and the guidance that you have provided, and this long-term challenge is one that we take on, fully understanding its importance to the President's strategy and how challenging it is to create improvement in a short time horizon. Nevertheless, our investment portfolio is one that is designed to address this challenge. And as we go sector by sector, we have tried to align our portfolio with the strategic dialogue that has taken place with Afghan leaders and with the accountabilities that they have stood up and articulated as the areas where they will be clearly responsible for ensuring improved outcomes. Overall, our priority is to define, track, observe and report on the results of our programs and how it contributes to the President's strategy. And while USAID programming is one part of a large and multifaceted diplomatic and development strategy on the civilian side, it is an important

part, and our commitment is to absolutely track resources against outcomes as effectively as we can.

I look forward to this discussion. Thank you.

[The statement of Dr. Shah follows:]

**Dr. Rajiv Shah
USAID Administrator
Before the
Subcommittee on State, Foreign Operations and Related Programs
Committee on Appropriations
House of Representatives
Washington, DC
July 28, 2010
“Oversight Hearing on Corruption in Afghanistan”**

Chairwoman Lowey, Ranking Member Granger and distinguished panel members, thank you for the opportunity to testify before you this morning on the United States Agency for International Development’s (USAID) activities in Afghanistan. I want to focus my testimony on our civilian efforts related to oversight and accountability of U.S. taxpayer resources in the promotion of good governance in Afghanistan.

I am pleased to be here with Ambassador Richard Holbrooke following our time together at the recent Kabul Conference.

This was my second trip to the region since being sworn in as USAID Administrator. During both visits, I have had the opportunity to get out of Kabul and see several of our programs throughout the country; and to engage in a meaningful dialogue with Afghan communities, our teams on the ground, and implementing partners.

I have challenged our team and partners to articulate a definition of success for each program we undertake— one that is analytically robust and grounded in strategic clarity. Indeed, strategic clarity is the first precondition for success.

Our nation’s overriding goals for Afghanistan and Pakistan, as articulated by President Obama, are to “ disrupt, dismantle, and defeat al Qaeda ... and to prevent their return to either country in the future.”

It is equally important that we define success for our assistance programs – be they stabilization efforts or long-term development programs. In each of our stabilization programs, for example, we must assess the core drivers of instability in the region and ensure that our stabilization efforts are directly addressing those core drivers. In our long-term development programs, by

comparison, we must place an appropriate emphasis on sustainability, partnership and long-term commitment. For example, we are working with our Afghan counterparts to develop a comprehensive energy plan that ensures sustainable energy production and distribution and brings in other partners.

Oversight and Accountability:

Central to all of our efforts is an emphasis on accountability, including more rigorous monitoring and evaluation. This is an area on which I am keenly focused as Administrator, and which represents a key part of our Agency's reform agenda, and our team's approach in Afghanistan. Through enhanced monitoring and evaluation, we seek to identify what works, what doesn't, and why, and implement changes in our programs to optimize against that information. Our goal is to more than triple investments in baseline information collection so that we can improve outcomes by checking progress and making course corrections as we go. We are requiring rigorous impact evaluation of crucial programs from their very inception, and creating incentives for knowledge sharing to recognize the best evidence-based decision-making in our Agency.

To implement the President's strategy, USAID has altered the way we provide assistance to Afghanistan. Over the past 18 months, the Agency has improved the scope of our oversight and accountability practices; increased our staffing; altered our contracting practices to focus on smaller and more flexible agreements; and increased our direct assistance to the Government of the Islamic Republic of Afghanistan.

Oversight and Accountability:

USAID has multiple oversight systems in place to ensure that U.S. taxpayer money is spent properly. However, we recognize that no system is completely fool-proof, especially in contingency environments. These systems range from pre-award conferences (to set oversight and reporting standards) and regular monitoring and evaluation actions (to track expenses against work plans and services delivered); to site visits and reviews of payment claims. Additionally, we work closely with independent oversight institutions both here in Washington and in the field.

It is also important to note that USAID's Office of the Inspector General is redirecting resources from elsewhere in the world to increase its permanent, on-the-ground presence in Afghanistan and plans to have almost three times

as many staff there as mandated by Congress. As a result, our Inspector General will audit approximately 25 percent of the Afghanistan portfolio on an annual basis, their most aggressive approach to auditing anywhere in the world.

Staffing:

Over the past twelve months, USAID has increased our staffing footprint throughout Afghanistan, to approximately 420 total personnel as of July 2010. Of that number, approximately 55 percent of our American staff are located outside of Kabul, as are many of our Foreign Service National personnel, who represent the backbone of USAID's Mission.

Individuals are located in Kabul, on Provincial Reconstruction Teams (PRTs), District Support Teams, and in Regional Platforms, bringing with them a wide variety of skills, including backgrounds in financial management, auditing, democracy and governance and law.

We are also taking steps to ensure that our staff gets out frequently to assess performance against a set of established targets. Being placed in the field allows these personnel to monitor and oversee USAID interventions in their regions and keep activities aligned with the priorities put forth by the Afghan people. I am grateful for the Congress', and particularly, this Committee's support in appropriating the resources necessary to increase our presence on the ground to ensure better oversight and accountability.

Contracting:

USAID regularly reviews contracts, grants and cooperative agreements and, consistent with the Agency's broader procurement reform agenda, we are working to decrease our reliance on large, multi-year agreements and instead implement an increased number of smaller and more flexible agreements that are often shorter in length. In many instances, these smaller agreements are managed outside of Kabul by our field-based staff, who are closer to the actual implementation and provide a higher degree of monitoring and oversight to the project progress as well as the use of those funds.

For example, the Afghanistan Vouchers for Increased Productivity (AVIPA) program is managed directly out of USAID/South. The Project Manager, based in Kandahar, provides technical direction, approves bills and workplans, and controls all project activities which include cash for work

programs, in-kind grants and vouchers for the purchase of seeds and fertilizers.

Direct Assistance:

As is the case elsewhere, the purpose of our direct assistance to the Government of Afghanistan is to build sufficient capacity so that we are not there indefinitely. USAID has a long history of such efforts, and we are using lessons learned elsewhere to inform our work in Afghanistan, including to ensure capacity, compliance, and the ability to recover costs.

Consistent with Agency financial regulations, USAID/Afghanistan's Office of Financial Management is undertaking assessments of Government of Islamic Republic of Afghanistan (GIROA) Ministries to determine the extent to which they are eligible for direct receipt of USAID funds. As of July 2010, we have identified three Ministries (Public Health, Finance and Communication and Information Technology) and other entities such as the Afghanistan Reconstruction Trust Fund (ARTF) that are certified for direct receipt of funds, for specific purposes. Under the agreements that USAID has entered into with the three Ministries, we have audit rights over the use of USAID funds. Throughout the course of our agreements with the Ministries, we are working to ensure continued capacity building of local systems as well as adherence to all terms and conditions regarding the use of funds. USAID does not have the right to audit the ARTF itself, but does accept the World Bank's audit and oversight procedures. Project audits of ARTF-financed projects are carried out annually by the Control and Audit Office. Furthermore, we have completed three additional assessments for the Ministries of Education; Agriculture, Irrigation and Livestock; and Rural Rehabilitation and Development.

Good Governance:

Concurrent with our efforts to provide assistance in a structured and accountable manner, we are also working to promote good governance initiatives throughout our assistance portfolio and via our participation in Task Force 2010 and its mandate to reduce corruption in contracting and procurement. This is an urgent task.

The lack of strong governance in Afghanistan magnifies the effects felt by communities when corruption is allowed to flourish. In an effort to combat this problem, USAID supports the Afghan government and other efforts to build and strengthen institutions in order to improve governmental

effectiveness, transparency and accountability. USAID programs directly and indirectly contribute to anticorruption goals through improved financial management, more merit-based personnel practices, stronger auditing, and more transparent procurement. At the same time, the Agency promotes external oversight by civil society and the legislature, including several local and community-based development programs that will increasingly emphasize accountability and transparency.

Interventions to tackle overall good governance and anticorruption issues are found throughout our portfolio. Specific examples of our interventions include:

- Provision of technical assistance to establish and expand the authorities of the Afghan Government's High Office of Oversight (HOO).
- Support to the justice sector both in formal and informal arenas through: training in judicial ethics, promotion of public trials, establishment of judicial conduct curricula, training in holding trials on anticorruption issues, and improved functionality of community-based dispute resolution councils.
- Training for Afghan civil servants on five common functions stated in the Afghan National Development Strategy: financial management, project management, human resource management, procurement, and policy planning.
- Training and small grants to establish resource centers for NGOs and community groups throughout the country. In addition, media strengthening efforts have trained journalists and helped establish 40 independent, community-based radio stations and provide ongoing assistance in development for media outlets, program production and distribution, media law advocacy and monitoring.
- Through our land reform work, we are reducing corruption in land transaction by informing citizens of land processes and procedures, by eliminating unnecessary steps and delays in land transactions, and by establishing a legal and regulatory framework to land administration.
- Finally, it is important to note that USAID is also supporting efforts to improve transparency and supervision in the commercial banking sector, and expanding opportunities to train accountants and senior auditors.

Fiscal Year 2011 Request:

As you know, Chairwoman Lowey and Ranking Member Granger, the Administration's overall Fiscal Year 2011 request for USAID's activities in Afghanistan through the Economic Support Fund (ESF) and Global Health and Child Survival (GHCS) accounts is \$3.4 billion. This is needed to complement the military surge and to ensure that our civilian experts have the resources available to accelerate our programs, especially in the areas where our troops have deployed. FY 2010 Supplemental funds will enable us to begin this surge to increase current activities and initiate new programs, particularly in the agriculture sector in southern Afghanistan, and FY 2011 funding is crucial to continue these efforts.

Pending your support for the FY 2011 request, we plan to devote most of these resources to the following priority sectors:

- **Good Governance** (\$1 billion ESF): Our Good Governance request, which includes funding for the Afghan Reconstruction Trust Fund, targeted budget support, and good governance technical assistance programs, will fund programs intended to build capacity of the Government and strengthen their financial and management oversight of their own budget in addition to assistance resources from the U.S. and other donors. By strengthening the Government's governance capacity, our programs will also help to increase citizens' confidence in public institutions to deliver improved services.
- **Conflict Mitigation** (\$605 million ESF): Our funding for Conflict Mitigation, which includes funding for Provincial Reconstruction Teams, will enable us to work with Afghan sub-national government bodies and communities to transition from stabilization to sustainable long-term development by supporting projects that directly address the causes of instability and insecurity.
- **Infrastructure** (\$525 million ESF): Infrastructure programs, which include funding for roads, power, and other infrastructure, will target the construction of key regional West-East and North-South transit routes and build roads that link rural communities and generate local employment, as well as strengthen the physical and management infrastructure to allow increased access to electricity.

- **Agriculture** (\$420 million ESF): Our agriculture request, which includes funding for USAID's alternative development and agriculture programs, will enable us to work with the Ministry of Agriculture Irrigation and Livestock, farmers and the agribusiness firms to increase agricultural productivity, regenerate the agribusiness sector, rehabilitate watersheds, improve irrigation infrastructure and devolve funding and programs to targeted provinces and districts.

These are considerable sums of money, and we undertake the challenge of programming them with the full knowledge that it is our duty to ensure, to the maximum extent possible, thorough oversight and accountability.

Further, we recognize that there are certain types of programs that carry a greater level of risk – for example, cash for work programs and large infrastructure projects that become targets for the insurgency -- and are actively trying to pinpoint these areas of greater risk that merit expanded oversight.

Undertaking some level of risk is critical to our success in the challenging security environment in Afghanistan, but we must seek ways to mitigate risks wherever possible.

Conclusion:

Achieving success in Afghanistan is not only central to the President's agenda; it is an important cornerstone of the Agency's broader reform agenda and how we conduct business worldwide. As Administrator, I see my role as making good on the President's and Secretary Clinton's promise to revitalize USAID by modernizing the Agency and enabling every employee to make judgments and innovative decisions that can help improve results and ensure accountability for every dollar we spend.

To that end, we are taking steps to revitalize the Agency's intellectual capacity; rebuild our budget accountability, strengthen monitoring and evaluation and pursue a development strategy that is based on focus, scale, and impact. To achieve greater return on taxpayer investments, we are reforming our procurement and broader implementation practices and redoubling efforts to support local institutions and build local capacity.

Taken together, I believe that these reforms will mark the most significant operational improvements to our nation's development agency since President Kennedy announced the creation of USAID almost 50 years ago.

Equally as important, I believe that they will serve as a foundation for greater oversight and accountability for our programs throughout the world, including in Afghanistan.

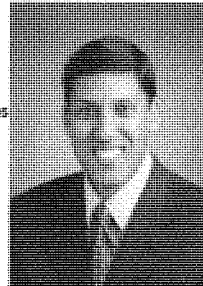
Chairwoman Lowey, Ranking Member Granger and other distinguished panel members, thank you again for the opportunity to testify before you on this extremely important issue. I know that this hearing will be the first of many on these topics and I look forward to working with you and your staff going forward. I am happy to answer any questions you may have.

Biography of Dr. Rajiv Shah

Administrator

Dr. Rajiv Shah was sworn in as the 16th Administrator of the United States Agency for International Development (USAID) on December 31, 2009. USAID, a U.S. Government agency, has provided economic and humanitarian assistance worldwide for almost 50 years.

Previously, Dr. Shah served as Under Secretary for Research, Education and Economics and as Chief Scientist at the U.S. Department of Agriculture, where he was responsible for safe, sustainable, competitive U.S. food and fiber system, as well as strong communities, families, and youth through integrated research, analysis, and education. At USDA, he launched the National Institute of Food and Agriculture, a new scientific institute that elevated the status and funding of agricultural research to be more in line with other major scientific groups. He also produced innovative initiatives in bioenergy, climate, global food security, childhood obesity, and food safety.



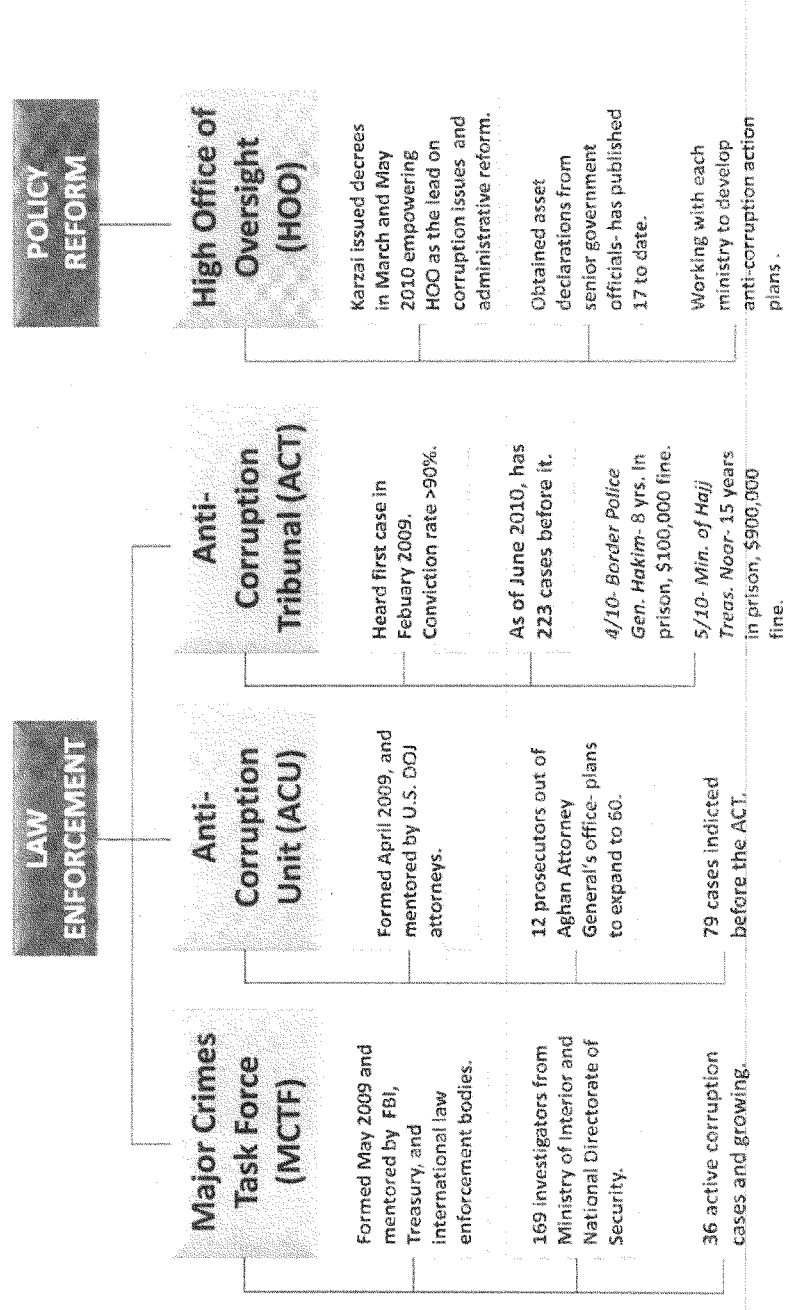
Prior to joining the Obama Administration, Shah served as director of Agricultural Development in the Global Development Program at the Bill and Melinda Gates Foundation. In his seven years with the Gates Foundation, Shah served as the Foundation's director of Strategic Opportunities and as deputy director of policy and finance for the Global Health Program. In these roles, he helped develop and launch the foundation's Global Development Program, and helped create both the Alliance for a Green Revolution in Africa, and the International Finance Facility for Immunization—an effort that raised more than \$5 billion for child immunization.

Prior to joining the Gates Foundation in 2001, Shah was the health care policy advisor on the Gore 2000 presidential campaign and a member of Pennsylvania Gov. Ed Rendell's transition committee on health. He is the co-founder of Health Systems Analytics and Project IMPACT for South Asian Americans. In addition, he has served as a policy aide in the British Parliament and worked at the World Health Organization.

Originally from Detroit, Michigan, Shah earned his M.D. from the University of Pennsylvania Medical School and his Master of Science in health economics at the Wharton School of Business. He has attended the London School of Economics, is a graduate of the University of Michigan, and has published articles on health policy and global development. Shah previously served on the boards of the Alliance for a Green Revolution in Africa (AGRA), the Seattle Public Library, and the Seattle Community College District. In 2007, he was named a Young Global Leader by the World Economic Forum.

Dr. Shah is married with two children. He lives in Washington, D.C.

RECENT INITIATIVES TO COMBAT CORRUPTION



COMPREHENSIVE ANTI-CORRUPTION STRATEGY

Improve Transparency:

- Assist ministries in developing anti-corruption plans.
- Assist Afghan Government in streamlining critical functions such as issuance of passports and driver's licenses to reduce opportunities for corruption.
- Promote greater independence, leadership, and authorities for the High Office of Oversight (HOO).

Improve Financial Oversight:

- Strengthen Central Bank's Financial Intelligence Unit and Financial Supervision Department.
- Strengthen capacity of Control and Audit Office (CAO).
- Build capacity in public financial management and budget execution.
- Work with CAO to develop penalty scheme for non-compliant ministries.

Build Judicial Capacity:

- Mentor and support Major Crimes Task Force (MCTF), Anti-Corruption Unit (ACU) and Anti-Corruption Tribunal (ACT).
- Develop Afghan capacity to provide security to judges, prosecutors and witnesses.
- Act on corruption reports submitted by U.S. civilian and military personnel.

Educate and Empower Afghans:

- Help the Afghan government and civil society educate and empower the public of their rights and responsibilities.
- Build community expectation of - and participation in - transparent and accountable governance.
- Work with government ministries to develop means of publicizing anti-corruption efforts.

CASH FLOWS OUT OF AFGHANISTAN

The Challenge: Very Weak Banking System and Cash-based Economy

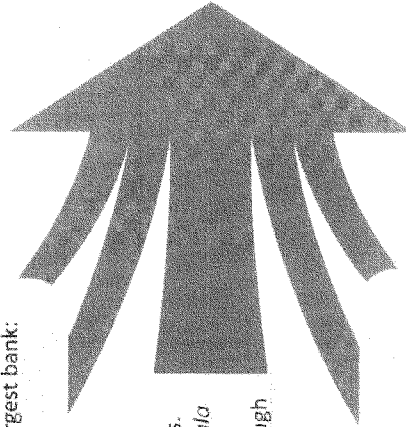
SMALL BUT GROWING FORMAL

BANKING SECTOR:

- 6 inactive banks in 2001 → 17 active banks today.
- Banking system has under \$3B in assets (Kabul Bank, Afghanistan's largest bank: assets of only \$600M).

CASH-BASED ECONOMY:

- Under 5% of Afghans hold bank accounts.
- 95% of Afghans rely on cash-based *hawala* networks.
- Hawalas reconcile cash imbalances through the physical movement of cash abroad.



Given the small size of the formal banking system and a cash-based economy, large volumes of cash move abroad each year in order to pay for Afghanistan's legitimate trade.

LARGE TRADE DEFICIT:

- \$8.8B total imports to Afghanistan in 2009.
- \$2.2B total exports from Afghanistan in 2009.
- Trade deficit of \$6.6B, or 49% of GDP.

Mrs. LOWEY. Thank you. And as usual, I will be calling on members based on seniority of the members that were present when the hearing was called to order. And I will alternate between the majority and the minority. We have a lot of questions this morning and just 2 hours with our witnesses. So I ask each member to keep their questions to within 5 minutes per round so all members have an opportunity to question all witnesses. I will begin with Ambassador Holbrooke.

At last week's Kabul Conference, the Government of Afghanistan committed to 19 new goals and objectives related to accountability, good governance, and anti-corruption efforts. Well, the goals are laudable and reflect commitments that President Karzai made in his inaugural speech and at the London conference. So we know that President Karzai has been saying the "right" or "politically correct" things. I heard it when I was in Afghanistan several times. But to date, the actions by his government do not seem to reflect a true commitment to these issues.

So a couple of questions. What evidence do you have now that any of the goals and objectives included in the Kabul Conference communique are anything more than hollow gestures to appease the international community? What practical steps has the Government of Afghanistan taken to address corruption in the past 6 months? What specific benchmarks are you holding the Government of Afghanistan to with regard to countering corruption? And do you believe that the new law passed by the cabinet to address high-level corruption will become law? Will it have an impact?

Maybe I will stop at that point, Mr. Ambassador. And I will proceed if I have any time left.

Ambassador HOLBROOKE. Madam Chairwoman, you asked the very same questions that the President asks, that our Ambassador and our Commanding General ask. If I could ask Rami Shy to bring this chart closer to us, perhaps we could address your question in very specific form. Rami is, as I said earlier, our Treasury person. And I would like to draw your attention specifically to the four vertical lines from top to bottom. And I want to stress, Madam Chairwoman, that this did not start with the Kabul Conference a week ago. This started the day we took office.

On the left, the Major Crimes Task Force, we formed that in May of 2009. I must stress, nothing had been done on this when we took office. Rami was working at the Treasury Department, and there was no one at State, no one at AID. Rami moved out of our office. There are at least 30 people working full time on this at Treasury. Raj Shah can address the AID effort. But the Major Crimes Task Force mentored by the FBI, Treasury and international law enforcement bodies has been up. There are 169 investigators. There are 36 active corruption cases. I hope you will pardon me if I don't go into details. But some of these cases are extraordinary, and they involve the DEA, FBI, USAID, State, Department of Justice, the Afghan officials. And they are ongoing and they are extremely sensitive in some cases. And they have caused some concern in some parts of the Afghan Government for reasons that will be obvious. But please forgive me if I don't go into operational details.

The second group is the Anti-Corruption Unit. Vanna, could you just point to the correct one? Thank you. The Anti-Corruption Unit

was formed in April of 2009, and the U.S. Department of Justice has worked on that. Matt Stiglitz on the other side of that is our DOJ representative. And if there are further questions, I hope you will permit them to also respond.

Mrs. LOWEY. Can I ask you to clarify, Mr. Ambassador? When you are saying that there are 36 active corruption cases and growing, are they all Afghans? Or are our contractors part of this mix?

Ambassador HOLBROOKE. One of the ones that I can talk about publicly, last year was two Afghan Americans, dual citizens, who were involved in a kickback scheme of about \$3 million in an \$18 million roads project. And they were brought to the United States under a very high tech operation run by the Department of Justice and the embassy. They were tried and convicted, and they are in jail now in Virginia. And they were linked to people in the government. So the answer is, a little of both.

I mean, this is a work in progress. We have put it at the top of our priority. And as we mentioned earlier, Task Force 2010, under Admiral Dussault, is focused on an area which is probably much larger than AID, the one you and I and Congresswoman Granger have already talked about privately, because the bulk of the foreign spending in Afghanistan comes on the military side, and that is a very opportunistic target for people who are looking for opportunities.

In any case, the Anti-Corruption Unit, 79 cases indicted with about a 90 percent conviction rate, is that correct? Yes, 90 percent conviction rate.

The third vertical line, Anti-Corruption Tribunal, started hearings last year. Their conviction rate is also 90 percent. They have 223 cases in front of them. And you will see in the bottom chart here that General Hakeem of the border police got an 8-year prison term, the Ministry of the Hajj Treasury a 15-year prison term. And then finally, the High Office of Oversight, which is the main anti-corruption body in the country. That existed in the past but was pretty ineffectual. From President Obama on down, we have talked about the HOO and the need to upgrade it, and in both his inaugural address and in his speech in Kabul last week, President Karzai addressed that. And we are, and the government has pledged to obtain asset declarations from senior officials, 17 have published so far. And we are working directly with each ministry to develop anti-corruption plans.

Madam Chairwoman, is this enough? Of course not.

Mrs. LOWEY. I thought you meant in 5 minutes since my 5 minutes is up.

Ambassador HOLBROOKE. Is it a start? It is. And I will stop there because I didn't want to use up your time. But I do want to underscore that everything that brought us together today is something we are working on all the time, nonstop with a very substantial number of people. But it is daunting. It is tough. The circumstances of the history of the country make it difficult.

Mrs. LOWEY. Thank you. Ms. Granger.

Ms. GRANGER. Administrator Shah, the Kabul communique reiterated the goal of providing assistance to the Afghan Government's core judgment. The administration is currently providing about 20 percent in direct assistance and hopes to get to 50 percent in the

next 2 years. Building the government's capacity and gaining confidence within the Afghan population are important, but I am concerned about rushing in to meet an arbitrary goal. Can you assure me that this is good development policy? It seems to me this approach is least appropriate in a country where there is a low level of capacity.

Dr. SHAH. Thank you, Congresswoman. Let me first address why we are pursuing this approach and then perhaps speak to a slide in terms of how we hope to do it in a way that maintains our compliance and oversight at a very high level of diligence and safeguards.

First, we believe this is exactly the right approach to be taking at this point in time in this setting. It is really the only way to build accountability and capacity in the institutions of governance and government in Afghanistan at a variety of levels, in the Federal ministries, in the provincial government and in the district governments. We are not pursuing this process by simply handing money to ministries or institutions. It is part of a cohesive strategy where we are investing and training 16,000 civil servants through the Civil Service Training Institute, which USAID has already established and supported, evaluated and finds to be very productive. We are specifically training civil servants in the range of activities we think are critical to implement these programs, ranging from financial management to program design to procurement to evaluation. And we are putting in place a district delivery program which is a project to help the Afghan Government better recruit and train an additional set of civil servants that will then go into district and provincial governments so there is more trained capacity at every level of government.

That said, our transition from 20 percent current direct assistance to 50 percent assistance will require a significant and coherent assessment process and set of compliance standards.

The slide to my left helps articulate how we are pursuing this in a way that protects our resources and allows us both confidence in compliance standards and the ability to have recourse should there be malfeasance in the use of funds. I start with a point about assessment. Basically our assessment process covers a few specific points. We need to make sure the organizational structure and implementation capacity of a ministry or any other public institution is accountable, has sound financial management capabilities, has a procurement structure that is transparent, meets our standards, and we have the ability for recourse should we identify that funds are used inappropriately. Without those clear standards being met, we will not and cannot proceed.

Second, the next sort of three points under the assessment point are really about having a clear and identifiable audit trail. We have already sent an expanded service support team to our embassy and to our mission. They have expanded their capabilities by hiring both local and international auditors, including firms we are all quite familiar with, to make sure as we make these investments we are doing it against specific auditable trails as funds flow so that we know exactly where these monies are going to the same standard that we use with our U.S.-based contracting implementers.

The next point on certification is particularly important. Our certifications are specific to programs and projects, so we would not be in a setting where we certify a ministry, write a check, and then fail to pay attention to “are they achieving program outcomes?” I was recently there to launch an agricultural development fund which was a \$150 million investment. Of that, \$50 million is targeted to build specific capacity in the appropriate ministry and in the partner provincial governments and district governments; and the remainder of the funds is a credit fund for farmers. In that specific example, we have metrics and numbers against how many farmers we expect will receive credit, which intermediate banking institutions will get the access to a subsidized credit fund, and we will be able to track those resources as they flow project by project and procurement by procurement.

That is what we mean when we say, assess and make a determination that we can work with the ministry. And we back that up with very specific monitoring and evaluation of how those funds flow.

Finally, on the monitoring and evaluation piece, in addition to what is stated here about USAID personnel meeting directly with the ministry at all levels, we have a range of tools that we use, including embedding ourselves or our partners in ministries so they can track and support decision making and funds flow, and doing retrospective reviews of outcomes related to the specific programs because we are funding specific programs, not comprehensive ministry activities.

And then finally, third-party auditing. As with all of our work and all of our processes, we believe there needs to be strong third-party evaluation and auditing. We certainly have the ability to get out and see projects and programs. But that does not obviate the need to have an independent assessment. And in all of these cases, we will have investments that are carved out for third-party evaluation so we can track these resources.

But I would like to just assure you that the purpose of this directional and strategic shift is to build the capacity in these institutions so they can sustain themselves over time and so that in the future the need for our direct engagement and support is much, much lower than it is today. Thank you.

Ms. GRANGER. Thank you, Madam Chair.

Mrs. LOWEY. Mr. Schiff.

Mr. SCHIFF. Thank you, Madam Chair. And Ambassador, thank you for being here and thank you for your good hard work. I go back and forth between trying to decide whether you or Ambassador Mitchell has the tougher job. And probably from week to week it goes back and forth between the two of you.

I wanted to ask you the question that I wrestle with most, and that is, I think, that our military can clear these areas that the Taliban occupy. I think we can build, through USAID and through your efforts, we can build infrastructure, we can build capacity. The question I have is not can we hold but can the Afghans hold, a year from now, when we start drawing down our troops, can the Afghans hold or will the Taliban simply come back? And whether they can hold will depend on whether they have a form of governance that the Afghan people are willing to fight for and to die for.

Right now, the Afghan people are very disturbed by the level of corruption not only in the regime but on a day-to-day level, the fact that to get their crops from one place to another they have to bribe five people on the way; that a police commander has to pay for his job, and then can sell the subordinate positions to people who can then stop people at checkpoints and charge them, the sort of day-to-day graft which is so widespread that, a relatively small number of cases at the higher levels of the Afghan Government may not deal with the endemic problem. And what I wanted to ask you, Ambassador, is how can we measure, how can we know if we are making progress towards the Afghans being able to hold once we start drawing down? How do we measure that, if it can be measured? Do you see anything that gives you confidence that we can get there in a year's time or longer? What should give us some either confidence or pause about the Afghans' ability to hold once we start drawing down?

Ambassador HOLBROOKE. Congressman Schiff, that is the core question of our entire strategy, and you have described it very well. People often talk about clear, hold, and build. It is really clear, hold, build, and transfer. And it is that fourth area that you have really addressed. The American and NATO troops can hold any acre of land in the world with force, and they can clear it before they hold it. But the project will only succeed if the local authorities gradually replace the international forces. That is why it is a linked civilian-military mission. But it begins with security. Rajiv Shah and I are committed to agriculture programs, rule of law, governance, subnational governance, and many other programs, health and education foremost among them. But those can only work if the Afghans can take care of their own security.

And here I want to underscore a point which I don't think is appreciated enough, and yet which has a direct impact on the work of this important committee. And that is that the military forces, as the President has said, will not stay forever. Our commitment, as he said, is not open-ended on the combat role. But we will have to recognize that there is a long-term economic, development and security assistance component to our presence there as we assist the Afghans to achieve the goals you outlined. Specifically, in July of next year, as President Obama has made clear, we will begin the phasedown, the drawdown of American and allied combat troops. However, the pace and scope will be determined by the situation on the ground following the policy review. But there has been a widespread misunderstanding here which I hope we can clarify that does not mean the end of the international support of Afghanistan because the issue you talked about is a long-term issue. A country that has been shattered by war, 30 years of continuous different forms of war with a very difficult situation on its borders, particularly the Pakistani border, needs international support, and we cannot repeat what happened in 1989.

So to be specific, the training of the military and the police, the support and assistance of the police and the military will be a longer-term project. And the work that Rajiv Shah and his very brave men and women in AID are doing will also have to continue long after the combat role is finished. Because what you are talking about, transferring from the international community, led by the

U.S., to Afghan leadership is a gradual process. Look at the police, 85 percent are illiterate. You can't have an illiterate police force, but you can't turn it into a literate police force overnight. Agriculture is our most successful program because they have such a great tradition. But rule of law, extraordinarily difficult, but we are committed to it. And that is why we come back to your committee over and over again to ask for your support in shaping and continuing this set of programs.

Mr. SCHIFF. Thank you. Thank you, Madam Chair.

Mrs. LOWEY. Thank you. Mr. Rehberg.

Mr. REHBERG. Thank you, Madam Chair. By way of introduction, I represent the State of Montana. So I have the largest population of any congressional district in the last 10 years and probably in the next 10 years because we won't get a second seat. So I am averaging just less than a million people in my congressional district. Over the course of the last Congress, since January 1, 2009, I have had 60 town hall meetings. I have another 15 coming up this week. I will tell you that I am noticing a change in my constituency about the direction of the American activities in Afghanistan, and it is not good. My State has been supportive. They have given the administration the benefit of the doubt. And I just want to suggest that it ought to give you at least some pause or some early warning signs at least. And we are not necessarily a microcosm of America. Montana is different than California, which is different, thank God, than New York and some of the other States.

So I just want to suggest that as I am traveling around, I see a problem. And one of the problems is, nobody really knows who to hold accountable other than, of course, the President is getting either the credit or the blame at this time. Could you give me some indication of who we hold accountable for all of the difficulties as they are starting to show up, whether it is the corruption, the missing money, the pallets. It is easy for the fingers to be pointed at DOD and at State and at USAID. But I am confused. I can't articulate a direction right now, and I want to be supportive and defensive on your behalf. I just don't know. And I love the charts. Could we have a chart like that with names on it beyond the President and the Secretary of State and such to see, who do we, as congressmen and Congresswomen, hold accountable?

Ambassador HOLBROOKE. Well, I say with great trepidation you can hold us accountable. That is our jobs.

Mr. REHBERG. Who are "us"?

Ambassador HOLBROOKE. Well, let me answer you seriously, Congressman. First of all, I appreciate your support. And we take very seriously what you have just said about the people of Montana who have, on a per capita basis, had a higher casualty rate than almost any other State, so we are particularly mindful of that.

Secondly, in terms of accountability, that is why we are here, and that is why we will always be available to your committee. Dr. Shah is the designated person in charge of a very large amount of money which your committee appropriates, and we respect that. I have a non-fiduciary responsibility given to me by the President and the Secretary of State to oversee and coordinate the civilian programs. The military command has its role to play in this, even if the money flows through another part of the House. And we

should be held accountable by you and by the American public, and we respect that.

Secondly, there is one thing you said I really would respectfully amend. We have not started this process now. We are not here today because of an article that appeared in *The Wall Street Journal* or *The Washington Post*. We are here today to report on what we have done over 18 months in an area that hadn't been addressed before. And this chart is a very clear demonstration of it because this chart—15 months ago, this chart would have been an empty chart.

Mr. REHBERG. Could I ask then in my remaining time of Dr. Shah, how many transactions do you have at USAID? You know, we appropriated \$50 million for reconstruction this last year. How many transactions were there within that money?

Dr. SHAH. I would need to check the specific number.

Mr. REHBERG. I just had my staff go onto Wikipedia real quickly and look up the credit card purchases. Visa had 9 billion transactions last year for a total of \$764 billion worth of transactions. I will bet they are not missing as much money as is missing or in question here. So what we are trying to find is, how many transactions did you have over the course of this last year?

Dr. SHAH. Let me speak to that because we don't believe we are quote-unquote missing money. We have approximately 120—and I could be off by a few—major program relationships. About 40 percent of that is cooperative agreements or grants, and the remainder are contract agreements with partners. They then have a series of subcontract agreements in order to implement large-scale programs.

Mr. REHBERG. So the audit that is being done, trying to track the money that is leaving Afghanistan is not missing money or that, you know, it is not yours or it is not American.

Ambassador HOLBROOKE. Congressman, with great respect, we are not missing money. I really don't think the American public should draw that conclusion. We are here to figure out how to work together to continue to cut down on corruption. That is what this is about.

Mr. REHBERG. Madam Chair, if I heard correctly, last week when we had our meeting, an audit is being done to make a determination whether that is American money leaving Afghanistan by the palletful.

Mrs. LOWEY. I am very pleased that both Ambassador Holbrooke and Dr. Shah are here today to discuss the entire program. We are appropriating a lot of money, and the reason I held up the \$3.9 billion and fenced it in, that I want to understand the systems that are in place that have really—as Ambassador Holbrooke said, been neglected for years. So we are here to hear what they are doing. What made me fence the money in was *The Wall Street Journal* report, as I am sitting home on a Sunday afternoon at a Little League game, that \$3 billion in cash was being sent to Dubai.

Now the good news is that a couple of years ago, you probably couldn't even identify the \$3 billion. In fact, they probably didn't even count it as it was being transferred out to Dubai. The bad news, as we are proceeding, is to look into all the transactions that occurred there. But at this moment, as an investigation is pro-

ceeding, we don't know where that \$3 billion came from. It could have been from the military, it could have been from contractors, it could have been from private investments. We don't really know.

But this hearing and the work that we are doing is the whole process because I think it is essential, and as Ambassador Holbrooke mentioned, I am very pleased that at the same time the Defense Department and General Petraeus are looking at Task Force 2010 and Operation Spotlight to look at the whole package, not just USAID.

Mr. REHBERG. Madam Chair, that is why I asked the question about transactions and about accountability in the chain of command because of course in the L.A. Times on July 26, they are talking about the fact that the Pentagon can't account for \$8.7 billion in Iraqi funds. And the difficulty is, are they going to ask us for the money back? Do we know where the money went? And that is why I ask specifically about the chain of command.

Mrs. LOWEY. Let me say this, I can recall one of the hearings we had with Stuart Bowen, and he told us it took 2-1/2 years to get a computer system up and running in Iraq just to account for all the expenses and all the transactions. So I am not surprised with that news, but I think that has to be explored separate from what is happening in Afghanistan. And I daresay, if we look into several agencies who have been involved, we might find some of the problems with computer systems and how they are accounting for all the problems.

Mr. REHBERG. Well, Madam Chair, it just pales in comparison to the Cobell case with the Native Americans where literally our accounting procedure was down since the days of the Custer battlefield. That is when the money was first noticed missing, and they are about to settle with the Native Americans for \$4.3 billion of money we frankly don't have. And our concern is to get on this as quickly as we possibly can. There is no excuse anymore when you look at what goes on with the banking transactions and the credit card industry—literally \$1.76 trillion changed hands with American Express and Visa and Master Card and Discover—for a total of \$20.2 billion transactions. So there is no excuse anymore.

Mrs. LOWEY. I happen to agree with you. And that is exactly why we are having this hearing, and that is exactly why this investigation will go on, and that is exactly why Dr. Shah and Ambassador Holbrooke are making this presentation and will continue to move forward in making sure adequate protections are in place. My taxpayers in New York, your taxpayers in Montana deserve answers to these questions.

Did you want to respond? Yes?

Dr. SHAH. If I might, and thank you for the comments. We just don't have that specific problem in our mission in Afghanistan. We have a strong single computer database. We call it Afghan Facts. It is built off of a larger system we use called Facts Info. It allows us to track program outcomes. We have almost 500 people out there in our different hiring capacities that are tracking program activities plus thousands of additional program contractors that are mostly local that actually get to programs and talk to communities that are beneficiaries.

Let me give you one example. Agriculture has been an area of significant additional investment. And given the volume of investment, we have been very focused on tracking the results. In the past year, we now know that we have employed more than 400,000 Afghans at different points for cash-for-work short-term programs that have helped clear canals, improve irrigation systems, and get water to support agricultural productivity. We have built more than 370 Afghan-led farm stores or depots from which farmers can get inputs and another variety of tools and implements. This has resulted in more than \$32 million of sales in fiscal year 2009 and benefited almost 90,000 farm households. We have provided 675,000 vouchers to support farmers getting back into their trade of getting access to improved inputs and improving productivity. And we were with Minister Rahimi this past week, and he suggested that the combination of these efforts have led to a more than 40 percent increase in overall agricultural productivity year on year.

Those are the kinds of indicators we have to track to know that the investments we are making are creating a sound basis of economic activity and productive activity that can support the President's overall strategy and ultimately sustain the types of governance, institutions and economic entities that will be required for Afghanistan to be an effective and well-governed society over time without large-scale U.S. engagement.

Mrs. LOWEY. I am going to turn to Ms. Lee. But I want to ensure you that your concerns are shared by all of us, including the administration. That is exactly why we are having this hearing. So I thank you.

Ms. Lee.

Mr. REHBERG. Thank you.

Ms. LEE. Thank you very much, Madam Chair. And it is good to see both of you. It is no secret that we should begin to end the longest war in American history, and of course that is in Afghanistan. So getting the right and effective mechanisms of development and diplomacy in Afghanistan, it really is part of that goal, and we have to get it right. But I am beginning to wonder if we are.

At a recent hearing, this subcommittee held—I think it was with the Special Inspector General for Afghanistan Reconstruction—I was really quite shocked at some of the amazing, damning incidents of corruption which I think—well, we are aware of and even contributing to as we continue to increase our military footprint in Afghanistan.

For example, I raised at that hearing a recent New York Times report, citing Afghan and NATO officials contending that security contractor companies, including those connected with President Karzai's family and affiliates, charged with defending United States and NATO interests have actually funneled money directly to the Taliban not to attack convoys or other targets and in at least one case there is suspicion of a contractor compelling the Taliban to attack NATO forces in order to delegitimize their competitors. The response of the Inspector General was that he was aware of these reports but not currently conducting an investigation or at least, you know, it wasn't a priority at that point.

So I want to clarify with you, who is supposed to follow up on these allegations? And are we sitting back in some instances while U.S. funds are directly financing the ongoing insurgency?

And then secondly, of course we learned yesterday that the Defense Department is trying to account for what, 96 percent or \$9 billion provided for DOD reconstruction projects in Iraq. And I am wondering if you know, because I know we are suppose to have at least close coordination between DOD and our civilian reconstruction projects in Afghanistan. Are we looking at any way to make sure that an investigation is conducted as it relates to Afghanistan when we are working on DOD civilian projects in a joint way?

And thank you again for being here.

Ambassador HOLBROOKE. You are welcome. On your second point, I read the articles with the same astonishment as you did. They refer to Iraq. They refer to events that happened starting in 2003. Neither Dr. Shah nor I are in any position to comment on it. It is military money. It is in another country.

In regard to your question about the Special Inspector General for Afghan Reconstruction, General Fields, I have met with General Fields and his staff many times. As you know, they report to Congress, not to us. All we do is provide them with the funds out of the State Department budget and logistical and housing support in Afghanistan. They report to you. And they have always emphasized that.

Having said that, we support them, we cooperate with them, and anytime that General Fields or his team bring anything to the attention of Dr. Shah, myself or Ambassador Eikenberry, we follow up on it.

As for the specifics you referred to, we are well aware of that, and the embassy does work on all of those things, and we covered them in our previous comments.

Ms. LEE. But if you are well aware of them, I just want to get a handle on, do we have to ask for an investigation then of what is taking place in terms of the allegations that occurred in—that were raised in The New York Times article as it relates to contractors funneling money to the Taliban to convince them not to attack convoys or targets? Who would be responsible for investigating those allegations?

Dr. SHAH. So, Congresswoman, we appreciate the point. I would like to just speak to USAID's perspective on how we assess especially security subcontracts of grants and projects. First, I would highlight that as Ambassador Holbrooke indicated, our total security outlays are going to be far, far lower than military-related security outlays.

Second, some of our activities—and we have looked at this carefully, like transport and fuel for construction programs, may require more security. But in general, we think security outlays as part of contracts are somewhere around the order of 7 percent of our total spent. We have special safeguards and a special system for vetting subcontractors that are security contractors. We use the Spot database and a number of other mechanisms to track and approve subcontracts.

Ms. LEE. Okay. So are we or are we not on top of the allegations that money is being funneled to the Taliban? U.S. dollars, U.S. contractors.

Dr. SHAH. For security contracts that are subcontracts of USAID programs, we are on top of that issue.

Ms. LEE. So how will we know the results? Are you investigating it, reviewing it? When will we know if these allegations are true?

Dr. SHAH. So I am not sure which specific allegations you are referring to. But for our prime programs, we are constantly reviewing and evaluating the effect of our subcontracts. I am asking our teams to redouble efforts to look at subcontracts of subcontracts, and that is an area where I think more visibility is needed. But we are on top of this with respect to our programs and projects.

Mrs. LOWEY. I just want to respond to Ms. Lee for a moment and then I will turn it to Ambassador Holbrooke.

At the beginning, I mentioned that I was very pleased, after we announced our hearings, to hear of Task Force 2010 and Task Force Spotlight. Task Force Spotlight is particularly focused on the area you are talking about, the security contracts. It is unfortunate that you need to create a Task Force 2010 and Task Force Spotlight after we have been there since 2002. But those are the facts of life. So that is their responsibility. And I do expect and they have a responsibility to get you some answers on that issue.

Ambassador Holbrooke, if you want to respond.

Ambassador HOLBROOKE. Actually, Madam Chairwoman, you just made the point I was going to make.

Mrs. LOWEY. My goodness, thank you.

Mr. Lewis.

Mr. LEWIS. Thank you, Madam Chairman. I very much appreciate you and Ms. Granger bringing this hearing together. These witnesses are perhaps as good as we could have to help us focus in a different way on Afghanistan. Ambassador Holbrooke and Dr. Shah, we appreciate your being here.

Ambassador Holbrooke, it was perhaps 25 years ago when I first asked this question relating to the poppy in Afghanistan that we learned a lot more about after Charlie Wilson's War. We have made significant progress, I gather, in connection with at least interdicting and in trying to deal with the cash flows that go to warlords and, in turn, support the Taliban and our terrorist opponents. I am very concerned that we haven't—in a comprehensive way developed a policy to try to long term deal with this.

Perhaps, Madam Chair, the most lasting example of socialism in the world has existed between the American Government and agriculture. It seems crazy to me that some way we haven't been willing to say that the poppy and those narcotics flows are so important to American interests that we ought to establish an agriculture-like program that long term delivers money to those farmers in a fashion that would allow us to truly create different crops since some wonderful things have gone on between India and Pakistan or in Afghanistan, for example, in recent years.

But I would like to know what thinking is going on within your offices regarding a project of this kind.

Ambassador HOLBROOKE. Let me start, and I will let Raj pick up. First of all, Congressman, this administration made a major

change in counternarcotics and agriculture policy, and I need to be very clear on that, even if not everyone agrees. We terminated American support for poppy destruction because we came to the conclusion, after analyzing the intelligence and looking at it carefully, that we were driving farmers into the arms of the Taliban, that our poppy crop eradication program was a recruiting tool for the Taliban, and that it was not in any way reducing the flow of opium and heroin to the West because the previous efforts did not address the big drug traffickers, the dangerous nexus between government officials, drug traffickers, the Taliban and the police which created this multibillion dollar industry in Afghanistan.

We also found that we were spending more money on poppy eradication than agriculture, so we made agriculture our top non-security priority. And I believe in a moment when Dr. Shah picks up from me, you will see that we are doing exactly what you are talking about. We have cash for work programs. We have AVIPA-plus programs. We work on alternate crops, saffron, pistachios, pomegranates. We are now with this historic transit trade agreement that we negotiated, that America played a central role in negotiating last week between Pakistan and Afghanistan. There is now a new market for Afghan agricultural goods in Pakistan of enormous importance. Remember that Afghanistan was an exporter of agriculture products until the Soviet invasion. They are really good farmers in that difficult rocky soil that is high, high up in the air, and they need our support. It is an agricultural country. When we create agricultural jobs, we deny a recruiting tool to the Taliban.

Not everyone agrees with us. Some of your colleagues think we shouldn't have stopped crop eradication. The Afghan Government may do its own crop eradication, but we don't. The Russians have objected strongly and publicly to what we did. That only encourages me to think we are on the right track.

But I want to underscore, Congressman, that everything you said underlies our new philosophy, and we believe that this is really paying off. I think that Raj and I would feel that this is our most successful program on the civilian side.

And with that, I would ask Raj to pick up.

Dr. SHAH. Thank you. I would just add a few thoughts. The first is that we know from experience around the world that creating an alternative economic opportunity for poppy-growing farmers has proven to be more effective than singular eradication and destruction efforts. This is part of the evidence base that supports Ambassador Holbrooke's suggestion that we have transitioned our strategic approach.

In terms of our strategy in agriculture, I ran through some of the statistics about the scale and the progress that we are starting to see. But it is basically based on improving staple crop productivity, offering high-value crop opportunities for both growing and caring for fruits and vegetables and other high-value products, like saffron, but also having real export markets that are supported by a local agro processing industry. And in each of these areas, we have programs that are addressing these points at scale, and we are confident that this is an area that can be very successful, especially if we can get more private investment and more agro processing

into play, which is why just last week we launched a major agricultural credit fund to allow for more commercial production, processing and export.

So those are the types of economic opportunities that we hope are the valuable alternative and the sustainable alternative to poppy. We are very focused on implementing that strategy at real scale.

Ambassador HOLBROOKE. Congressman Lewis, I forgot to add one critical thing. In ending the crop eradication programs, we refocused our efforts on interdiction, major drug traffickers and drug czars. We could prove to you—and we would be happy to give you a private briefing on this—the amount of paraphernalia we have destroyed, the amount of opium—the poppy seed that we have found, and the actual production in hectareage has gone down by 20 percent in each of the last 2 years. We have destroyed an enormous amount of morphine, opium and poppy. And in this case, the military command under General McChrystal and General Petraeus has really joined us in this. This is a joint civilian-military effort of the highest coordination. And we know from intelligence reports that the Taliban have lamented our decision because it removed the recruiting tool.

Mr. LEWIS. Madam Chair, thank you very much for the time. Let me just mention that I began by saying it was 25 years ago I asked this question first, which would suggest that many an administration has come and gone since then. And I am still not satisfied that we really have a handle on where we are going with this, but we do want to work closely with you.

Thank you.

Mrs. LOWEY. Thank you. Mr. Rothman.

Mr. ROTHMAN. Thank you, Madam Chair. Thank you, Mr. Ambassador, Dr. Shah.

Mr. Ambassador, first of all, thank you for your extraordinary career in public service and your continuing to take on matters of great difficulty and complexity and danger. You are the Special Representative of the President for Afghanistan and Pakistan. I know we are not in a classified setting. But many people believe that while there has been some progress made in addressing what has been called a double game by Pakistan's intelligence services and military in supporting both NATO and U.S. efforts but also supporting the Taliban, many people believe that that is going to be an insurmountable obstacle to your work in producing civilian programs in Afghanistan, for example, that we hope will pacify the region and deny al Qaeda a place to train.

Can you comment on the allegations of the Pakistani dual game? You mentioned the positive aspect of the trade agreement between Afghanistan and Pakistan. But what about the allegations that there is a dual game going on? And then I have other questions.

Ambassador HOLBROOKE. The relationship between the U.S. and Pakistan has been characterized in a book which is about to come out that traces the history of it as three marriages, two divorces, and we inherited a really unacceptable relationship with Pakistan both in bilateral terms and in regional terms. It was unsustainable. You are not going to succeed in Afghanistan unless Pakistan is part of the solution. Not just Pakistan, however. Pakistan is part

of a region that includes other major countries. To the west of Afghanistan, a country we have another kind of problem with. To the north, Tajikistan, Turkmenistan, Uzbekistan, and beyond them Russia. China borders on Afghanistan with a serious vested interest, and beyond that is India.

So this is the most complicated region you could imagine. But at the core of it, Pakistan must be part of the solution. President Obama directed early last year that we change the relationship with Pakistan, number one, and number two, we try to change the relationship between Afghanistan and Pakistan in order to move in the direction that you have discussed.

Mr. ROTHMAN. Have those efforts succeeded?

Ambassador HOLBROOKE. I believe we have made dramatic steps forward and we are not there yet. It is a work in progress. But if I may just be specific, I would not dismiss the transit trade agreement as merely a trade agreement. It is the most significant agreement between Pakistan and Afghanistan in at least 50 years. These countries have had a very troubled relationship going back to the day Pakistan was born.

Mr. ROTHMAN. I apologize. I only have 5 minutes.

Ambassador HOLBROOKE. But you have raised the most important issue, and with your permission, I want to just finish this.

So on the U.S.-Pakistan front, with your support Secretary Clinton has attended and chaired two strategic dialogues, one in March in Washington, one in Islamabad 2 weeks ago. We will chair a third here in Washington in October. In those dialogues with 13 working groups, from water and energy to a law enforcement—

Mr. ROTHMAN. But I have to interrupt you. Have you noticed a difference in the receptiveness on the part of the Pakistanis?

Ambassador HOLBROOKE. Dramatic. And those people who were with us on the trip, Dr. Shah and I were sitting with Secretary Clinton. Secretary Clinton herself, everybody commented on the change in tone over the last year. It is improving America's image in the public area.

Now on the second tier, what you are really referring to, we are engaged in a very intense dialogue with the Pakistani military, with their intelligence services. I myself have met with General—

Mr. ROTHMAN. Are we making progress in that regard?

Ambassador HOLBROOKE. We are absolutely.

Mr. ROTHMAN. Before my time runs out, what is the Taliban's interests, Mr. Ambassador? This goes to our long-term hope for success in Afghanistan. What is the Taliban's interest in a society in Afghanistan where there is rule of law, women's rights, and a nonpoppy agriculture where they are not getting a piece of the action? What is their interests?

Ambassador HOLBROOKE. That is why they are opposed.

Mr. ROTHMAN. How do they ever get onboard?

Ambassador HOLBROOKE. Well, we have this reintegration program which has been funded by the international community, which is offering the Taliban, under the tremendous military pressure they are facing now, a chance to renounce al Qaeda, lay down their arms, accept the constitution and reintegrate. That program has finally launched much more slowly than I would have pre-

ferred. It is funded with \$2 million by the international community. The U.S. is not funding their program. But the Congress authorized \$100 million of CERT for General Petraeus to work with. I think if David Petraeus was with us today, he would say that is the most important program he is working on. It addresses specifically your point.

In other words, 70 percent, Congressman, 70 percent of the Taliban at least have no ideological commitment to al Qaeda, Mullah Omar. They are fighting either because they don't know the real story in Afghanistan or because of a local grievance and they need to be brought in.

Mr. ROTHMAN. And it is not religious in terms of—for example, girls attending school and women having certain rights that they don't presently enjoy?

Ambassador HOLBROOKE. Well, that is a huge issue, but the Taliban are not fighting because of that issue. If you read Taliban propaganda, and we study it very carefully, they never mention the issue of women, girls in school because that was their most losing issue. What they talk about is corruption, the reason we are here today. That is their number one recruiting tool. We took the other one away, narcotic poppy destruction. And they talk about American and international forces defiling the people. And then they talk about women, but in a totally grotesque way that I won't even discuss here. So their propaganda always eliminates this because they know that was their biggest mistake.

Mr. ROTHMAN. I thank you. Thank you, Madam Chairman.

Mrs. LOWEY. Thank you.

Mr. Chandler.

Mr. CHANDLER. Thank you, Madam Chair. Ambassador Holbrooke, Dr. Shah, and all your staff who are sitting in those two rows behind you, I can't tell you how much respect I have for what you all do. I don't think you are ever appreciated enough. And I am certain that people generally don't understand the enormity and the difficulty of what you are dealing with, what you deal with on a day-to-day basis. So I want to thank you. I want to thank you for all of your efforts.

Ambassador Holbrooke, I think earlier you said that the circumstances of this region made this a very, very difficult job. That I thought was one of the all-time understatements that I have ever heard. I just can't imagine, knowing the history of Afghanistan and Pakistan—I think many people in this country are now familiar with that history. It is a history of a place where both the British and the Russians, among others, came to grief. In my view, those two countries in some respects are not even really nation states or effective nation states. They haven't been in their history. I don't believe they have ever had, at least by our lights, effective governance. I don't think they have ever had, again by our terms, systems that weren't corrupt, and I don't think they have ever had any real economic capacity, at least in relation to what we are used to in this country.

And what we are trying to do may very well be the most difficult undertaking in the history of this country. Again, I don't think that people understand the enormity of it. I understand why we got in this war, and I understand why we are in Afghanistan. I have sup-

ported it. We went in as a war of necessity. It is unlike the Iraq situation. But that being said, I think we really have to ask ourselves serious questions about whether or not this really is doable. As I understand it, our strategy essentially is this: In order to achieve success in this region, we have got to build opportunity for the people of the region. We have got to build some kind of successful economic system. We have got to try to put people to work. We have got to give them some hope of prosperity in order to have success. I understand that to be the basis of our strategy.

We are even having trouble doing that in this country, and we are trying to do it with an area of—Afghanistan and Pakistan alone have over 200 million people. When you throw in all the rest of these areas, with the backwardness of the economic and governmental situation that we had there, I have to ask you, do you really believe that we can succeed at this? Do you really believe that there is a legitimate chance? We have already been in it for, as I think Ms. Lee said earlier, a longer time than we have been in any other similar undertaking—at least military undertaking. Can we succeed at this? And what kind of economy are we really trying to build in this area?

Ambassador HOLBROOKE. Thank you for a very good question. Let me make three quick points. Number one, on a personal note, I wouldn't be in this job if I thought it was impossible to succeed. I would so state and make my views known as an alternative. So yes, of course, I believe we can succeed. But it is difficult. It is the most difficult job I have had in my career because of what we inherited and the exogenous factors, such as the sanctuary that we discussed a moment ago in regard to Congressman Rothman's equally important question.

So we have to go back to first principles, Congressman Chandler. Why are we there? I don't want to waste time going back to 9/11. But that is why we are there. We wouldn't be choosing to fight on the most remote and difficult terrain in the world if we hadn't been attacked on September 11, 2001. And if the outcome is not a good one, al Qaeda will return to Afghanistan with the Taliban, and there will be regional repercussions that will extend from Beirut to the Himalayas. So we have to deal with those.

Having said that, I need to be clear. This war isn't going to end on the Battleship Missouri or the Wright-Patterson Air Base in Dayton, Ohio. It is a different kind of situation. David Petraeus and I have talked a great deal about how this war ends. And it is not the subject of this hearing. It is a complicated issue. I will be happy to talk to you offline about it. But the civilian mission, the reason we are here today before your committee, is absolutely indispensable because this is not simply a war of military fronts. It is a war in the end. And this goes back to the question of Congressman Schiff and Congressman Lewis and all of your colleagues. We must have a way of improving the Afghan governance. And yet we cannot replace that government, as was implicit in the exchange with Congressman Schiff. What we need to do is help them establish themselves.

Now, it is very a very interesting point which I don't think I have mentioned publicly before. When we took office, we inherited a mission statement from the previous administration which I don't

know if it was public or not, but it was extraordinarily ambitious. It was creating a modern state, a modern democracy in Afghanistan with limited resources. The President narrowed the mission to a reasonable, achievable goal, and increased the resources with the support of your committee. That was the core of what we did in Afghanistan.

Meanwhile, going back to Congressman Rothman's point, we refocused on Pakistan, which previously had been dealt with as a separate issue unto itself. We integrated the two countries without—we don't use the word AfPak in public, but it did imply that the fact that what happened in one country affected the other. That is the strategy.

I know we are out of time, and it is a long issue, but we do have a strategy. It involves both countries, and we want to get Afghanistan to a reasonable level of stability and security but we are not delusional. With the illiteracy rate as high as they have, the poorest non-African country in the world, and the distortions in the situation in the economy caused by an international presence in history, there are limits to what we can do. We are seeking to protect our national security interests. If we didn't feel that, we wouldn't be asking you for the kind of support that you and your colleagues have so generously given us.

Mrs. LOWEY. Thank you. Mr. Moran.

Mr. MORAN. Thanks, Madam Chairman, for having this hearing. I have enormous regard for you, Dr. Shah. But I am not going to address my questions at you. I am going to address them at Ambassador Holbrooke because you are not particularly a warrior or an USAID Administrator. You are a diplomat and par excellence. And you are just the kind of person we need. I don't disagree with any of the facts that you have shared with us. I do disagree with your conclusions though. You have lost me, for whatever it is worth, in terms of the viability of this mission, and I noted accordingly yesterday.

One of the turning points I think was Marjah. It was supposed to be an Afghan National Army offensive. We claimed it as successful. But when you look at the number of wounded and dead, 85 percent of them were Americans. There is a story I was told when I was over in Afghanistan that the one particular Marine company had given the marketplace in the middle of Marjah to—and they routed the Taliban. They couldn't find their ANA counterparts, sent out a scout. They find them in the marketplace sitting on the ground, smoking hash with a pile of stuff that they had looted from the shopkeepers. So we reimbursed the shopkeepers what amounted to \$300 to \$500 a piece to make up for all the goods that the Afghan Army had taken.

One of the people who is in a position of consequence in this mission shared with me what the elders told him. We didn't liberate Marjah. The Taliban did, from a corrupt police chief that was taking everything they were making. And then the government reimposes somebody they brought from Germany who was also corrupt; in fact, had been convicted of a violent crime. I can't imagine why. I can only speculate that they were involved as a conduit or something for a drug trade or some kind of reason. But anyway, he didn't belong where he was put. The problem that the elders re-

lated was that the government is never going to get the loyalty of the Afghan people because it doesn't deserve it. It will be another generation after we educate the government servants and so on, but particularly the police and military. We don't have the political will in this country, let alone the resources or the lives to expend in that effort.

They feel that the only hope—although it is not by any means a perfect solution—is the kind of government of conciliation, whatever you want to call it, collaboration with the Taliban that President Karzai has cited. That worked in Ireland. I am familiar with it. I know you are. You know, they reached out to Gerry Adams. A lot of the folks in New York City and other places couldn't believe they were doing that. But it worked. To some extent it worked in the Balkans.

I would like to hear from you, Ambassador Holbrooke, whether as an imperfect situation but perhaps expedient, given all the other factors considered, whether you think we could bring about such a government? They are not so much right now in Afghanistan. And bring about the kind of local governments, justice, if you will, albeit terribly harsh that many of the people are looking for?

Ambassador HOLBROOKE. Thank you, Congressman Moran. It is good to see you again. I would like to address the macro part of it. And with the chairwoman's permission, Frank Ruggiero, who has just returned as my deputy, was in Kandahar and Marjah. He has just been back a few days. I think he might give us a vivid picture of the issue that the Congressman just mentioned.

As President Obama and Secretary Clinton and the rest of us have said, we support the reconciliation program of President Karzai that you referred to. We support it, and we also support the reintegration program that I discussed earlier in response to an earlier question.

With three red lines, those red lines are for our own national security. And just to repeat them because they are so critical, renounce al Qaeda, lay down their arms, and participate in the political process. Thousands of people have done that. The programs atrophied after the last few years. Last year was a year focused on the Kabul and the Afghan elections, which were very messy. We got through those—a close call but we got through them—and now the government has resurrected the reintegration program. They have added what you correctly called the reconciliation program, and we are going to support it. But I would caution you, there is a lot less there so far than the press has speculated on.

With that, Madam Chairwoman, could I ask Frank Ruggiero to answer the second part of the question? This is Frank Ruggiero. He is my senior deputy, and he was the senior civilian representative in the southern region of Afghanistan until 2 weeks ago.

Mr. RUGGIERO. Thank you, Congressman. I was in Marjah the fourth or fifth day after the U.S. forces went in, and I agree completely with your point. When we talked to the residents of Marjah, what they told us was the previous government that the Taliban had displaced was absolutely corrupt and preying on the people.

As you pointed out, the district government that we appointed or the Afghan Government appointed, there are challenges certainly with his background. We have worked, I think, in a pretty good

manner to try to make that government serve some basic needs of the people that are in Marjah.

The point I would make on Marjah is that Marjah is part of a larger issue.

Ambassador HOLBROOKE. Just to clarify, while Frank was on vacation, the man you are talking about was dismissed. He is gone.

Mr. MORAN. Oh, he was?

Ambassador HOLBROOKE. He attempted to murder his stepson, and that seemed like an unfortunate thing.

Mr. MORAN. Questionable background, yes.

Ambassador HOLBROOKE. So the point is, the man is gone as of about 5, 8 days ago.

Mr. MORAN. That is great news. Good.

Mr. RUGGIERO. In terms of Marjah, we try to look at it in the overall effectiveness of what we are doing in the central Helmand River Valley. The U.S. Marines and U.S. civilians went into various important districts in central Helmand last summer and cleared those out. In Nawa and Gharmisir and in the capital city, Lashkar Gah, we have seen a pretty good effect of our counterinsurgency strategy. We have seen the same thing in Nad Ali, which is just north of Lashkar Gah. Marjah remains a challenge. But Marjah is the last area in the central Helmand River Valley where the vast majority of the population of Helmand lives that we would have to clear and stabilize. The Taliban recognizes that. They are putting up a significant fight. But I think we are making progress there.

Mr. MORAN. Thank you. Very good response. Thank you, Ambassador. Thank you, Frank, very much. Thank you, Madam Chairwoman.

Mrs. LOWEY. Thank you. We are very fortunate that Congressman Moran serves on the Defense Subcommittee as well as our committee so we get the benefit of his expertise which is often interesting as we discuss these issues.

Mr. ROTHMAN. Madam Chairwoman.

Mrs. LOWEY. Oh, absolutely. We are also——

Mr. ROTHMAN. I serve with Mr. Moran and was on that trip when we heard——

Mrs. LOWEY. Mr. Israel, who understands the issues but isn't on the Defense Subcommittee.

Mr. ISRAEL. Thank you, Madam Chair. Ambassador and Dr. Shah, thanks for joining us. I apologize for having had to leave the room.

My district, like the chairwoman's district, is in the New York area. My district is 30 miles from Ground Zero, and so I think it is important for us to refocus on basics. You know there is a fog of war on the battlefield but sometimes there is a fog of war on this center of gravity and sometimes we lose sight of the basics. And I believe the basics are that we do have a mission to reintegrate and reconcile those who can be reintegrated and reconciled and to degrade and defeat al Qaeda.

There is a second reality that I would like to share with you. And these aren't my words and they don't come from any sophisticated punditry. They come from a member of the Special Forces with whom I met during a visit to firebase Ties near Musa Qala several years ago. Congressman Jim Marshall and I participated in a

CODEL and we went to this remote fire base and met with some folks from the Special Forces who were preparing to enter Musa Qala. We were asking them about the history of Musa Qala and we were told that Musa Qala had shifted back and forth from ISAF to the Taliban, back to ISAF, to the Taliban. We had lost control, gained control, lost control repeatedly. So I asked a dumb question, and my question was, well, were the residents of Musa Qala for us or were they for the Taliban? And one of the soldiers in the Special Forces said, Congressman, they are for them. They are for them. He said, Here is what is going to happen tomorrow: We are going to go into Musa Qala. We are going to shoot up the bad guys. Some are going to be killed, the others are going to flee to the mountains and the caves. We are going to build a new bridge over the river at Musa Qala with U.S. taxpayer funds. We are going to build a maternity clinic in Musa Qala with U.S. taxpayer funds. We are going to let the governing council where women serve in Musa Qala and then we are going to leave because we are going to be ordered to the next Musa Qala. And you know what is going to happen? The Taliban is going to come out of the caves, out of the mountains, come to Musa Qala, assassinate the people on the governing council, blow up the bridge and blow up the maternity ward that we built. He said, You know, I am all for this winning the hearts and minds. He said, but you know what, hearts change, and people change their minds. He said, If we want to get this right in Afghanistan, you have got to give people an alternative and you have got to protect that alternative. He said, and that is going to take a long time. I said, Well, how long? He said, Well, how long have we been in Korea, Congressman? And that was very telling. And not from FOX News and not from MSNBC but from somebody who is doing the shooting.

Now to me that is the history of Afghanistan. You just cannot impose order from above. The WikiLeaks was just—not new history, ancient history. You cannot impose order from above unless you are going to get people protected, but ultimately they are the best protectors. The one in my view—here is my question. Long windup. Here is the pitch. The one truly successful program in Afghanistan has been the National Solidarity Programme, in my view. Why? Because it is not made in the USA. It is not us going in and building a bridge and a maternity clinic. It is funded by us and the World Bank, but it is run out of the Afghan Ministry of Rehabilitation and Rural Development. It is in 44,000 villages. It doesn't say "Made in the USA." It says "Made by the People of Afghanistan," and it has largely been immune from Taliban attacks because the Taliban understands hearts and minds, and they don't want to anger local residents by blowing up their own sweat equity.

So my question to you is, do you agree that the National Solidarity Programme is an effective strategy in securing Afghanistan for the Afghan people? And if so, what other models should we be supporting that are similar to the National Solidarity Programme?

Ambassador HOLBROOKE. We totally agree with you. We have gone back for more funding. I have talked to Bob Zoellick, the President of the World Bank, about it many times. The head of the NSV program was in Washington recently, and we have asked him to come back in October—the Congress was out of session when he

was here—in order perhaps to come up and share his views with you. But I couldn't agree more.

Now as for your scenario from Musa Qala, if that is what happens, the strategy will not succeed. We all understand that. How do we prevent that pattern from occurring? That goes back to my earlier discussion with, I believe, Congressman Schiff about clear, hold, build, and transfer. If we can't transfer, the process will not move forward. And that will take time, which is why I emphasized in my earlier remarks that long after the combat troops have left there will have to be a continuing American commitment on military, the police, and economic and development assistance.

And Dr. Shah may wish to comment on it because in the long run, he is going to have the most important role, in my view. Otherwise, the pattern you described will happen. But it doesn't have to happen for this reason, Congressman. As you well know—because the depth and the way you phrase the question suggests a substantial understanding of it, you left out one thing. People really don't like the Taliban. They really, truly don't. You talk about hearts and minds. A minority can take over. An armed and ruthless minority can take over a majority. Mao Tse-tung was really the developer of that thesis and he set a pattern which everyone else has followed. He once said, Give me two good men, and I will take any village in China. By good men, he meant terrorists who would have public beheadings of just the sort you described.

So it isn't enough just that they don't like the Taliban. They have to be given security. And that security cannot be given indefinitely by international forces. So you and I are in the same place. We have the same goal. But we need your support. And I thank you for it. And I think Dr. Shah should also comment about the long-term needs for economic development.

Dr. SHAH. Thank you for your comment. And I just want to start by saying, we agree with your assessment of the National Solidarity Programme, and I know we have spoken with the chairwoman about her support for that program as well. We have looked carefully at the more than 22,000 community development groups that have come together, councils, and the work that they have done. I think there is a new preliminary Harvard study that will show the strong performance and sustainability of those programs. And you are right, they have been protected in terms of the benefits they have offered for clean water and improved governance and women's empowerment. We have just participated in an approval of the third phase of that program that will reinvest in about 17,400 of those councils for the next phase and to add an additional 10,300 communities in which they will do that. This is a major 5-year, \$1.5 billion investment and the U.S. Government would be the largest single provider for that, doing it with international partners. And that is part of the funding plan going forward.

On the longer term piece, you know, one of the reasons I was excited about the Kabul Conference was that it was an opportunity for the Afghan Government in a coherent way to present a viable long-term economic strategy that would provide access to economic resources through sustained investment in the agriculture sector and through a coherent approach to taking advantage of the mining and mineral assets that exist in Afghanistan. That latter oppor-

tunity has been identified largely by our partnership with the U.S. Geological Survey, funded by USAID, to help explore and make visible what resources are actually there. Hundreds of billions in some estimates, trillions of dollars of mineral resources. That needs to be coupled with continued sustained investment in local governance and local opportunities, like the National Solidarity Programme, and there are many other programs that we are trying to design in that way that benefit from that local piece. And it is really the two of those things, large-scale long-term economic opportunity connecting with this local vibrancy and capability of governance, when it can succeed, to come together and create a viable economic plan over the long term.

So thank you for raising that and highlighting that specific program.

Mr. ISRAEL. Thank you, Madam Chair.

Mrs. LOWEY. I thank you for raising that issue as well because this committee has certainly been extremely supportive of the NSP program, and we look forward to seeing it expand to all the communities that it hasn't participated in as well.

Ms. Granger.

Ms. GRANGER. Thank you. I have three questions circling back to some of the answers or discussions today. So if you could be concise in your answer, maybe the chair will let us have all three of them.

First of all, back to Mr. Lewis' question having to do with the poppies, there was a negative GAO report released last week on agriculture which said USAID can't track performance. So I would like your response to that.

Also, in talking about tracking, what Mr. Rehberg was talking about, you explained your computer system and your tracking. What can you say about DOD and their tracking? If you can refer to that.

And the last thing is, we started with this and have heard it through three hearings about one of the problems with the money leaving Afghanistan is the lack of a banking system. So why haven't we addressed the banking system? And why didn't we address it very early as far as rebuilding?

Dr. SHAH. I will take the first question, and perhaps ask Ambassador Holbrooke to address the others. On agriculture in the GAO report, we have looked at that very carefully and largely believe that we can implement most of the findings of that report. The distinction I would make would be between our ability to track the flow of funds, and the process indicators that are in grants and contracts and cooperative agreements and the actual observation of outcomes.

So I can sit here and tell you how many Ag depots have been created, how many vouchers have been handed out. We are improving our capability to then understand, what does that mean for a farmer who went back, planted improved seed varieties and used fertilizer? What kind of a yield improvement did they get? What kind of an income improvement did they get? And how did that connect to the larger agricultural sector performance? We absolutely need to get to a place where we can do that. We are working aggressively to make that happen.

That is the difference between what that report highlighted and our ability to track with strong oversight the actual flow of funds and the process indicators.

I won't comment on necessarily DOD's systems for tracking outcomes. I was just in Bamiyan last week where we saw roads funded through the CERT program come together with roads funded through USAID programs. We certainly have a system that we think is pretty rigorous in terms of standards of performance and contracting and construction quality and sustainability. I think the effort to bring together the civilian and military sides in those settings in the PRTs is helping. At the point of those decisions people understand the value of those types of standards and that kind of oversight.

So I am optimistic that we can get to a place where there is more coherence, but I can't speak specifically to the tracking system.

Ambassador HOLBROOKE. Congresswoman Granger, on the cash flow system, we brought this chart with us, and I hope it can be added to your record. This is an extraordinarily tough problem and, once again, one that was simply ignored until early last year. There were no active banks in Kabul in 2001. Today there are 17. But this is one of the most underbanked countries in the world. As a result, almost everything is cash payments, either cash carry couriers or hawala system.

I would like to submit for the record this list of things we are trying to do so as to save time. But only 5 percent of Afghans hold bank accounts, almost all of them in the big three cities or four cities. 95 percent of the people rely on hawala system, and the articles in *The Washington Post* and *The Wall Street Journal* left the understandable impression that that huge flow of money going through the airport was all illegal or drug traffic. Some of it is. But it is also required to fund their economy.

Total imports to Afghanistan last year, \$8.8 billion. Total exports, \$2.2 billion. How is this paid for? The trade deficit, which is 50 percent of GDP, 50 percent, it requires these large cash flow movements.

Now, how do we regulate them? It is declared, just as in our country. Originally we thought—and part of my team is right behind me, Rami Shy and Matt Stiglitz, we thought maybe we could get some control over this directly. We are doing a lot in the Gulf because Dubai is obviously the major port of call for this cash movement. We are working very closely with the government on this. We do believe some of the money is illicit, of course. But what we are really trying to do is move them to a mobile banking system. Ashley Bommer, who is in the second row, has been focused on that since the day she joined the government with me at the beginning of last year.

For example, a small but important example, we are trying to pay soldiers and police through cell phone payments. And what happened? We did an experiment with about 50 police. And they came to people and said, Our salaries are much higher than we realized. Because they were being skimmed. And so we are going to try to proliferate that. Mobile banking is a partial solution to this. But we agree with you how important it is.

The only thing I would caution is don't assume that all the money going through that airport is illicit money because if they couldn't move money this way, the economy would implode and Dr. Shah would be unable to do his programs.

Ms. GRANGER. Thank you.

Mrs. LOWEY. Thank you. Before I close, I want to correct myself once again. In addition to Mr. Moran and Mr. Rothman, we have our ranking member, Kay Granger, who serves on the Defense Subcommittee. So we have a lot of expertise here when it comes to dealing with corruption and accountability.

As I close, I want to thank you on behalf of the subcommittee. I do want to thank our witnesses for your candor. Over the past 3 weeks, the Subcommittee has delved into the issues of accountability and corruption in Afghanistan. As you know, we had a hearing with the relevant Inspectors General, the Government Accountability Office, as well as briefings with Ambassador Eikenberry, and the Treasury Department. The staff and myself have met with many individuals, agencies, nongovernmental officials who have expertise in these areas. And the common message in these meetings is that challenges in Afghanistan are complex. They are significant. They are multifaceted. They are difficult. But I must say from this hearing and your testimony, I am heartened to hear that the administration is taking these challenges very, very seriously.

And just to repeat as we close, establishing a new Rule of Law, Ambassador in Kabul, to begin to strengthen and coordinate the rule of law programs, embedding advisers in the Afghan Ministry of Finance and the Afghan Customs Service to improve their capacity to track Afghan and international assistance funds, taking steps to put in place a ministry assessment process that lays the groundwork for building ministry capacity, put in place expanded oversight mechanisms for bilateral and multilateral mechanisms, creating Task Force Spotlight to examine private security contractors, Task Force 2010 working with DOD to review the contracts and subcontracts and improving the visibility of contract funding flows.

I am also somewhat encouraged that the Government of Afghanistan at least has committed itself to additional steps in the areas of good governance, judicial reform, and anti-corruption during the Kabul Conference. However, only time will demonstrate whether these commitments are real, and there is a political will to make tangible changes.

Certainly we have heard of stories, such as the one you related, where some people have been arrested and charged, but we also know that there are many people at the top who were charged but not arrested and not prosecuted.

So there is a lot of work to be done. I am very confident that the Secretary of State, our witnesses today, Ambassador Eikenberry and his team will continue to raise our concerns as we pursue methodology to address them. We are pleased that you are pursuing these concerns at the highest levels in the Afghan Government.

It is also apparent from the testimony today that the Administration understands the importance of accountability and transparency for maintaining U.S. taxpayer support.

You have heard from my colleagues. People are pained. They are losing their sons, their daughters. This is very, very difficult for our Members of Congress to go home to. And then when they hear stories of the corruption, the lack of accountability, it is very difficult to continue to be supportive. And I think you are aware of that.

The war in Afghanistan was allowed to languish without sufficient strategy or resources for far too long. So I do commend the President for refocusing our efforts and our strategy. However, none of us should be under any illusion that all of the problems are behind us. And in the weeks ahead, I look forward to working with you, Ambassador Holbrooke and Dr. Shah, and the Subcommittee, to put in place safeguards to ensure that the funds we appropriate for programs in Afghanistan, where the civilian components of the Administration's strategy are integral to the success of the military and the stability of the region, are being used for their intended purposes, and reach the intended recipients. I know you are committed to it. This Committee is committed to it. We know we have a lot more work to do.

But thank you for coming today and we look forward to continuing to reach our goal. Thank you very much. The committee is adjourned.

Oversight of U.S. Civilian Assistance in Afghanistan
Questions for the Record
Submitted by Ranking Member Kay Granger
for Arnold Fields, Special Inspector General for Afghanistan Reconstruction

To the extent possible, please provide answers to the following questions based on the Special Inspector General for Afghanistan Reconstruction's analysis. If no analysis has been conducted, please provide information and timelines on whether it is planned.

Afghanistan Reconstruction Trust Fund (ARTF):

- 1. Please provide a description of your engagement with the ARTF to include SIGAR's end-goal for access and oversight as well as details on the dates and types of meetings held. When will you have additional information on your plans and timelines for audits?**

We are currently conducting an audit of the National Solidarity Program (NSP); this is one part of the ARTF. We are looking at accountability issues – are the funds being used as intended and are mechanisms in place to fully account for all funds. We will report on this work early next year. In addition, SIGAR is planning to conduct an audit of overall U.S. contributions to the Afghanistan Reconstruction Trust Fund in fiscal year 2011. One objective of this review will be to assess accountability, internal controls and evidence of corruption.

ARTF is a partnership between the international community and the Afghan government. Since 2002, 30 donors have provided nearly \$4 billion, making ARTF the largest contributor to the Afghan budget – for both operating costs and development programs. ARTF supports national programs, operating costs of the Afghan government, and a policy reform agenda to contribute to the achievement of the Afghanistan National Development Strategy goals, which include the promotion of transparency and accountability of reconstruction assistance. According to the World Bank, which administers the trust fund, during the period 2002-2010, the United States pledged to contribute \$1.25 billion to the trust fund; this constitutes the largest percentage of pledged funds (28.5 percent) from any individual country or source. It includes \$440 million for the NSP. The United States has already provided \$722 million of the total amount pledged to the ARTF.

Investigations:

- 1. What specific investigations are being conducted into the flow of funds in Afghanistan?**

We are working with other federal agencies, including U.S. Immigration and Customs Enforcement (ICE), to determine the source of bulk cash shipments leaving Afghanistan through the Kabul International Airport. Since March of this year, our investigators have been closely involved in a U.S. Immigration and Customs Enforcement (ICE) initiative to track bulk currency smuggling. At the end of March, ICE, with the assistance of multiple federal law enforcement agencies, launched a three-day operation to examine cash leaving via the airport. During this

period seven passengers declared \$8.2 million in cash that they were legally taking out of the country.

During April and May 2010, SIGAR investigators made three trips to Dubai to coordinate with other agencies and address the bulk currency transfers from Afghanistan to Dubai. We have provided pertinent investigative intelligence to ICE concerning that flow of cash. We are also investigating fraudulent activities involving subjects in Dubai that are potentially related to the transfer of currency from Afghanistan. These investigations are law enforcement sensitive and we are not in a position to further comment at this time.

It is important to recognize that Afghanistan has a primarily cash-based economy and there are numerous possible explanations for these movements of cash. For example, the large sums of legally declared currency exports could conceivably be the result of Afghanistan's high reliance on cash to conduct legitimate trade with the international community. It could also be money generated by criminal activity, such as corruption and the drug trade. We share concerns about the large sums of cash being exported through the Kabul International Airport, and SIGAR investigators are working with other federal agencies to determine the source of these bulk shipments.

We are also initiating an audit to address whether U.S. and donor assistance programs to develop the Afghan banking sector are building an effective Afghan currency control regime. This audit will examine the status and development of the Afghan banking sector; identify currency control systems, policies, and activities of the Afghan government, including regulation of bulk cash flow into and out of the country; identify activities of the United States and other international donors supporting currency control efforts of the Afghan government; and assess the implementation and effectiveness of the Mission Interagency Civilian/Military Working Group Action Plan for regulating bulk cash flows at Kabul International Airport.

The effort to deter corruption in Afghanistan would benefit greatly from increased visibility into the movement of money and financial transactions in Afghanistan. The lack of transparency is one of many issues that puts reconstruction dollars at risk.

Contract Oversight

- 1. Do USAID and State have the same weaknesses in contracting that have been identified for DOD? In addition to contracts, USAID often uses grants and cooperative agreements. Are there any particular vulnerabilities in those mechanisms?**

Our previous and ongoing work has identified some of the challenges that Department of Defense (DOD), State, and U.S. Agency for International Development (USAID) face in effectively executing contracts for Afghan reconstruction. The use of contracts, grants, and cooperative agreements for reconstruction in Afghanistan is extensive. Agencies are using contractors and implementing partners to accomplish a variety of reconstruction objectives, from building facilities for the Afghan National Security Forces, constructing roads and other infrastructure, and training the Afghan National Police to developing local governance in Afghanistan's provinces and creating sustainable agriculture programs to facilitate the growth of Afghanistan's licit economy.

We have identified several weaknesses in contracts administered by DOD. For instance, although DOD has established procedures to ensure control and accountability over the Commander's Emergency Response Program (CERP) funds, we found weaknesses in their monitoring and execution procedures in 2009. We reported that program officials had limited visibility over CERP projects due in part to the lack of centrally retained project files and insufficient electronic records.¹ Furthermore, we have completed several audits of U.S. Army Corps of Engineers projects in which we have identified a number of contract-related issues. These resulted in a lack of quality control and in significant delays in the completion of Afghan National Army and Afghan National Police facilities in Kunduz and Kandahar.²

Our ongoing and future work is focused on examining weaknesses in contracts, grants, and cooperative agreements managed by DOD, State, and USAID, as well as identifying challenges faced by the three major agencies overseeing and managing Afghan reconstruction. We are currently undertaking a review of data on contracts, grants, and cooperative agreements used by DOD, State, and USAID for Afghan reconstruction. Our report, which we expect to complete in October 2010, will identify the obligations these agencies have made to support reconstruction objectives. We plan to use this work to identify individual contracts, grants, and cooperative agreements that should be audited. Based on our initial impressions, we have found that, although the agencies are contracting for different purposes, they may be encountering similar problems, such as a lack of effective requirements definition; insufficient oversight and surveillance of contracts, cooperative agreements, and grants; and inadequate financial management systems to maintain internal control over the funds obligated.

Federal law and agency acquisition regulations govern the use of cooperative agreements and grants. In response to concerns that federal agencies may be inappropriately awarding grants to avoid competition, Congress passed the Federal Grant and Cooperative Agreement Act³ to define when the use of contracts, grants, or cooperative agreements would be appropriate. SIGAR has not identified instances where DOD, State, or USAID used a grant or cooperative agreement to circumvent acquisition regulations. However, we plan to consider these issues as part of the audits undertaken of grants and cooperative agreements managed by State and USAID.

2. Do State and USAID have an ability to track who is receiving funds, from the sub-award level through the final recipients?

Our work suggests that DOD, State, and USAID face serious challenges in fully identifying and reporting on the prime contracts, grants, and cooperative agreements used for Afghan

¹ SIGAR Audit 09-5. *Increased Visibility, Monitoring, and Planning Needed for Commander's Emergency Response Program in Afghanistan*. Washington, DC/Kabul, Afghanistan), September 9, 2009. <http://www.sigar.mil/pdf/audits/Audit-09-5.pdf>

² SIGAR Audit 10-09. *ANA Garrison at Kunduz Does Not Meet All Quality and Oversight Requirements; Serious Soil Issues Need To Be Addressed*. (Washington, DC/Kabul, Afghanistan), April 30, 2010; SIGAR Audit 10-12. *ANP Compound at Kandahar Generally Met Contract Terms but Has Project Planning, Oversight, and Sustainability Issues*. (Washington, DC/Kabul, Afghanistan), July 22, 2010. <http://www.sigar.mil/pdf/audits/SIGAR%20Audit-10-12.pdf>

³ Federal Grant and Cooperative Agreement Act of 1977 (P.L. 95-224)

reconstruction. These challenges may extend to identifying subcontractors. Under contract regulations, although prime contractors are generally responsible for identifying and managing their subcontractors, federal agencies may insert language into contracts to require that prime contractors submit the names of subcontractors for approval prior to performing work on a contract. For instance, State requires consent and approval of any subcontractors by the government before a prime contractor is allowed to issue a subcontract in Afghanistan. USAID prime contractors and implementing partners are also required to obtain USAID contracting officer written consent before making a subcontract award under contracts, grants, or cooperative agreements.⁴ Our reviews of contracts, grants, and cooperative agreements suggest that this practice may not be adequately identifying all subcontractors performing work on reconstruction projects.

Our audit team is working to identify the challenges that DOD, State, and USAID face in tracking funds for Afghan reconstruction. We are currently conducting five audits of contracts, grants, and cooperative agreements. Additionally, we are beginning a forensic auditing program that will analyze obligations made for Afghan reconstruction to identify vendors and contracts at serious risk of fraud, waste, or abuse. This program will examine financial records and use models to highlight vendors who may be defrauding the government.

3. Who is responsible for vetting sub-contractors or sub-grantees? How do they determine that people receiving these funds are not terrorists, warlords, or individuals with corrupt backgrounds?

We are concerned about proper vetting of subcontractor and sub-grantee personnel in Afghanistan. Our previous and ongoing work has identified instances in which poor subcontractor vetting has caused cost, schedule, and performance problems. Furthermore, our work has indicated that the level of subcontractor vetting is not sufficient, and that the systems used to vet subcontractors are not fully capable of ensuring that these subcontractors have no ties to terrorist or corrupt organizations.

DOD, State, and USAID have requirements in place to require reporting of subcontractor information; but our preliminary works suggests that the systems used to capture this information may be insufficient. The Federal Acquisition Regulation permits, but does not require, federal agencies to include requirements in a contract that the prime contractor submit information on the subcontractors used to perform work.⁵ However, State and USAID both require that prime contractors obtain written consent before making subcontract awards. DOD also requires that subcontractor information be reported for certain contracts valued at more than \$550,000.⁶ However, our ongoing work suggests that the systems used to capture this information might not be sufficient. Because the quality of the documentation on contractors in Afghanistan is generally poor, DOD and State indicated to us that they are working to obtain biometric data on subcontractors to create a searchable database of approved individuals. For instance, DOD is

⁴ Who's Minding the Store: Hearing before the Commission on Wartime Contracting in Iraq and Afghanistan, July 26, 2010.

⁵ See *Federal Acquisition Regulation*, Part 44.2—Consent to Subcontractors.

⁶ Who's Minding the Store: Hearing before the Commission on Wartime Contracting in Iraq and Afghanistan, July 26, 2010.

implementing the Biometric Automated Toolset (BAT) card program for granting local contractors to base access. Biometric information on BAT cards includes fingerprint scans, iris scans, facial photos, and biographical information.⁷ State has reported that all local contractors and subcontractors performing work on government property must have a record on file with State's regional security officer that includes biometric information. This biometric information is compared against DOD, FBI, State, and DHS databases to identify potential individuals posing a security risk. This process is similar for third-country nationals. We have not yet directly evaluated these systems to determine if these systems can fully identify potential threats; however, U.S. agencies believe they are critical to achieving U.S. objectives in Afghanistan. Biometrics data in Afghanistan is predominantly used to identify, track, and apprehend insurgents as a means of force and base protection, as well as to prevent fraud and corruption. However, a comprehensive assessment on its use in Afghanistan has not been done.

We reported in January 2010 that problems awarding subcontracts and issues related to subcontractor performance led to delays in the construction of the Kabul power plant.⁸ Furthermore, we also have heard from other organizations that, while government-wide databases such as the Past Performance Information Retrieval System and the Excluded Parties List System keep track of contractors, these systems may lack full and complete information. DOD, State, and USAID officials have told us that gathering information on subcontractors is difficult due to the lack of documents used to identify Afghan nationals and the frequency with which Afghan firms change their names and officers. While these agencies report to us they hope to improve data with the introduction of biometric tools to identify contractors, we have not yet evaluated these programs to determine their effectiveness. We are planning to continue work on subcontractor vetting procedures in response to the concerns that we have identified and the important role that subcontractors play in carrying out reconstruction efforts.

Organizational Structure

1. Do you believe there is enough coordination across agencies and programs? Have you been able to determine how decisions are made?

We believe there is insufficient coordination across agencies and programs. SIGAR is initiating audit work in the agricultural sector, an area of reconstruction that we believe may have coordination difficulties. Multiple agencies, including USAID, DOD, State, and the U.S. Department of Agriculture (USDA) are spending reconstruction funds for agricultural development through a variety of programs. What SIGAR has found by looking at other sectors, mainly the energy sector, is that it is extremely difficult when you have so many U.S. agencies involved, including the international donor community, to have a coordinated effort. We found in

⁷ Interagency Coordination of Grants and Contracts in Iraq and Afghanistan: Progress, Obstacles, and Plans, Hearing before the Subcommittee on Oversight and Investigations of the House Armed Services Committee, 110th Cong., (testimony of Gary Motsek, 2010).

⁸ SIGAR Audit 10-6, *Contract Delays Led to Cost Overruns for the Kabul Power Plant and Sustainability Remains a Key Challenge* (Washington, D.C./Kabul, Afghanistan), January 20, 2010. <http://www.sigar.mil/pdf/audits/SIGAR%20Audit-10-6.pdf>

the energy sector that there was a lack of coordination, planning, and common standards. Furthermore, a July 2009 SIGAR audit report found that although key U.S. agencies and commands in Afghanistan have management information systems for collecting data on their reconstruction activities, there is no single management information system that provides complete and accurate information of all completed, underway, and planned reconstruction activities.⁹ In this report, SIGAR recommended that U.S. civilian agencies and military commands work together toward developing an integrated management information system, or comparable integrated information solution, for Afghanistan reconstruction activities that provides a common operating picture of reconstruction programs and projects. SIGAR believes that the civilian uplift—assigning staff from civilian agencies to the Provincial Reconstruction Teams—has the potential to improve program coordination among agencies. We are currently conducting a review of how the uplift is being implemented and when this work is completed, we will have comments regarding the affect of the uplift on agency coordination.

Civilian Uplift

- 1. Are staff equipped with the right skills to properly oversee and manage foreign assistance dollars? Do they receive sufficient training including specifically related to corruption?**
- 2. Is there sufficient support from contracting officers in Kabul and in Washington?**
- 3. Are there reporting mechanisms that alert staff to problems as they occur, not after the problem?**

Properly trained staff are essential to the effective delivery of U.S. assistance. That's why, in April 2010, SIGAR began an audit of the implementation of the civilian uplift projects specifically to answer these questions. This audit will examine the capacity of civilian implementers to perform contract and grant oversight, as well as the support they are receiving and whether or not there are mechanisms in place to detect potential problems. . SIGAR envisions this audit, which will be completed in the fall of 2010, as a key tool to assist the Congress in evaluating U.S. civilian oversight capacity in the field. In the interim, SIGAR would like to note that our work to date suggests that civilians in the field have limited contract and grant oversight authorities, although efforts are under way to improve oversight by civilians in the field.

⁹ SIGAR Audit 09-3, *A Better Management Information System Is Needed to Promote Information Sharing, Effective Planning, and Coordination of Afghanistan Reconstruction Activities* (Washington, D.C./Kabul, Afghanistan), July 30, 2009. <http://www.sigar.mil/pdf/audits/Audit-09-3.pdf>

Monitoring and Evaluation

1. **Is there a sufficient focus on monitoring and evaluation of programs in Afghanistan so that State and USAID can uncover corruption as well as performance problems?**
2. **Do you think that there are sufficient requirements in place that require both financial and performance reporting for contractors and grantees in Afghanistan? Does that system go down to the sub-award level? What weaknesses need to be addressed?**

While agencies are subject to a variety of reporting requirements and have each developed multiple systems to report financial and performance information, SIGAR is concerned that the data reported may not be complete enough for DOD, State, and USAID to provide full oversight over Afghan reconstruction projects. For instance, in our ongoing work, SIGAR has found that agencies have faced challenges in fully identifying and readily reporting on the obligations made against contracts, grants, and cooperative agreements. By not keeping track of this information, DOD, State, and USAID may be challenged to connect resources to results.

We are particularly concerned with the amount and quality of data on subcontractors. Our work has indicated that subcontractor data reporting requirements may differ by agency, program, or even by contract. Furthermore, reports obtained from our investigators and data analyzed by our auditors have indicated that the large number of subcontractors coupled with poor data on subcontracting may pose a serious risk of fraud, waste, or abuse of funds. In our effort to identify weaknesses that need to be addressed, SIGAR is continuing to examine the use of subcontractors, the data systems used to record information on subcontractors, and the effectiveness of agency efforts to ensure that prime contractors and subcontractors are performing work efficiently and effectively. In fact, SIGAR has begun a forensic audit program to analyze the financial data provided by DOD, State, and USAID to identify prime contractors and subcontractors who may be engaging in fraud, waste, and abuse of funds.

In terms of weaknesses that need to be addressed, SIGAR would like to draw the attention of the U.S. Congress to potential challenges in the Afghan First program. Many contracts have used U.S., Afghan, or third-country national subcontractors to perform work. Under the Afghan First policy, local procurement of Afghan products is encouraged to increase the number of Afghan prime contractors. While this policy may support U.S. and Coalition goals to promote Afghan economic development, it also raises potential challenges for DOD, State, and USAID in keeping track of financial and performance data on prime contractors and subcontractors.

Questions for the Record

Submitted to USAID Administrator Rajiv Shah by

Congressman Ander Crenshaw

House Appropriations Subcommittee on Foreign Operations

July 28, 2010

Oversight of U.S. Civilian Assistance for Afghanistan

Question #1:

Administrator Shah, USAID is the lead for our funding provided to the ARTF for project-specific activities. In your testimony, you state that “USAID does not have the right to audit the ARTF itself, but does accept the World Bank’s audit and oversight procedures. Project audits of ARTF-financed projects are carried out annually by the Control and Audit Office.” Why doesn’t the USAID have the same ability to review those programs and funding as you would for any bilateral program?

Answer:

The World Bank administers the multi-donor Afghanistan Reconstruction Trust Fund (ARTF) by providing program preparation, project supervision, and fiduciary oversight. All ARTF funds flow to and through the national budget and are implemented by the line ministries, thus promoting other goals of strengthening government capacity and ensuring the sustainability of interventions.

The World Bank, along with other public international organizations (PIOs), such as the UN and its specialized agencies, UNDP and WHO, do not permit access to and audit of their books and records as they believe that such access would jeopardize their institutional independence, violate the international agreements under which they have been established, and potentially subject them to the laws of all of their member states. USAID has had a policy for many years that PIOs composed of many member nations will not be expected to subject their

books and records to inspection by officials of each country participating in the organization, except in situations in which USAID is the sole contributor to an activity being administered by that PIO. In multi-donor situations such as ARTF, USAID generally relies on the international organization's management and its internal auditing and procurement policies and procedures, supplemented with reporting and external auditing requirements as negotiated in any applicable trust fund agreement. The U.S. Government also retains certain rights to reporting and accountability by virtue of its membership in the PIO through the U.S. Executive Director.

The ARTF was established in 2002 and is essentially a "bank account" that holds donors' money in trust. Its governance and fiduciary framework is at the same high level as other World Bank controlled trust funds. For all trust funds administered by the World Bank a "single audit" is conducted every year based on an assessment of the Bank's internal and financial management controls. The World Bank's procedures and controls are subject to annual review by an external auditor. The ARTF agreement also requires that the World Bank provide donors with an annual management assertion together with an attestation from the Bank's external auditors on the satisfactory performance of the procedures and controls used by the Bank in administering grant funds.

The primary vulnerability with regard to the ARTF is not with respect to expenditures by the World Bank itself for trust administration, but with respect to expenditures by Afghan Government recipients of ARTF funds. While the ARTF trust fund agreement does not provide for direct audits by donors of those Afghan Government agencies, with the cooperation of the GIRoA and under the provisions of other assistance agreements the U.S. Government has been able to directly audit certain of these activities in the same way as we would if these were bilaterally funded.

Project audits of ARTF-financed projects are carried out annually by the Government of Afghanistan's Control and Audit Office (CAO), by a contracted international firm. The Auditor General conducts the annual financial statement audits of all the ARTF funds to international auditing standards with the support of an international firm of public accountants. Audit findings are reviewed in detail and action plans established where the need for remedial improvements is detected. Improvement of system gaps is a condition of continued disbursement. Where audits reveal non-project-related expenditures, the Government must make full and prompt refund. The Afghan Government has a prompt record for doing so to date. Expenditure scrutiny occurs in parallel with the attention on and improvement of systems. Large-value expenditures are subjected to detailed examination by World Bank staff accountants prior to payment. Smaller-value expenditures are normally honored based on a statement listing such expenditures which is then subject to post-review, spot checking and periodic audit by World Bank fiduciary staff.

We are in daily communication with the World Bank and the ARTF. We also work closely with key ARTF donors on a regular basis. Furthermore, USAID participates in ARTF Donor Committee Meetings on a quarterly basis to discuss the status and strategic direction of ARTF and to provide policy guidance to the Management Committee. The donor meetings are also an opportunity for the Afghan Government to present its priorities for ARTF funding in line with its budget and development strategy.

Question #2:

Can you assure us that funding provided to the ARTF has the same restrictions in place as U.S. bilateral assistance so that we can ensure that U.S. law is upheld? For instance, are implementing partners, at all levels, required to include certifications requiring screening for terrorists?

Answer:

The World Bank provides fiduciary oversight over the ARTF. Before the ARTF disburses funding to entities of the Government of the Islamic Republic of Afghanistan (GIROA), the World Bank Integrity Vice Presidency (INT) screens this action using procedures that were agreed upon by the World Bank's executive board, of which the USG is a member. As a Public International Organization, the World Bank is subject to neither US nor any other donor nation's laws.

The World Bank contracted Price Waterhouse Coopers (PWC) to serve as the Monitoring Agent of the ARTF's Recurrent Cost Window. This contract is renewed annually. We continue to press that the Monitoring Agent visits more provinces and conducts more field visits to provide more adequate oversight, a recommendation common for almost any project in Afghanistan.

In terms of terrorist screening, this kind of issue is dealt with by the World Bank's INT. The INT maintains its own list of de-barred firms and individuals and has recently developed the Company Risk Profile Database that is linked to, inter alia, the UN sanctions list. All new World Bank contracts (following a competitive and open procurement process) are filtered through this system to confirm that there are no formal objections. They also review the terms of reference, credentials of the firms, proof that they exist, are fit to do the work, etc. Recently, the World Bank had a case where one of their individual Afghan contractors came up as a member of the

Taliban and a process was followed which established that there were two individuals who had the same name and were in fact two different people.

Question #3:

In your opinion, are the World Bank's audit and oversight procedures good enough or should something be changed to grant USAID more audit rights? What can we do to make that happen legislatively?

Answer:

The World Bank's audit and oversight procedures of the ARTF itself are sound. As discussed in the response to Question 1, the potential for vulnerabilities are with the Afghan agencies that the ARTF is financing. Therefore the primary focus of the USG is on working with and developing the capacity of the GIRA to conduct project level audits through the Control and Audit Office (CAO) of recipient agencies of ARTF financing. Additionally, as with the SIGAR audit of the NSP, the USG is conducting its own reviews of certain projects to ensure proper accountability for these funds. Our focus is on strengthening the Government of the Islamic Republic of Afghanistan's ability to deliver results to its people in a transparent and accountable manner.

Questions for the Record
Submitted to USAID Administrator Rajiv Shah by
Congressman Ander Crenshaw
House Appropriations Subcommittee on Foreign Operations
July 28, 2010
Oversight of U.S. Civilian Assistance for Afghanistan

Question #1:

Administrator Shah, USAID is the lead for our funding provided to the ARTF for project-specific activities. In your testimony, you state that “USAID does not have the right to audit the ARTF itself, but does accept the World Bank’s audit and oversight procedures. Project audits of ARTF-financed projects are carried out annually by the Control and Audit Office.” Why doesn’t the USAID have the same ability to review those programs and funding as you would for any bilateral program?

Answer:

The World Bank administers the multi-donor Afghanistan Reconstruction Trust Fund (ARTF) by providing program preparation, project supervision, and fiduciary oversight. All ARTF funds flow to and through the national budget and are implemented by the line ministries, thus promoting other goals of strengthening government capacity and ensuring the sustainability of interventions.

The World Bank, along with other public international organizations (PIOs), such as the UN and its specialized agencies, UNDP and WHO, do not permit access to and audit of their books and records as they believe that such access would jeopardize their institutional independence, violate the international agreements under which they have been established, and potentially subject them to the laws of all of their member states. USAID has had a policy for many years that PIOs composed of many member nations will not be expected to subject their

books and records to inspection by officials of each country participating in the organization, except in situations in which USAID is the sole contributor to an activity being administered by that PIO. In multi-donor situations such as ARTF, USAID generally relies on the international organization's management and its internal auditing and procurement policies and procedures, supplemented with reporting and external auditing requirements as negotiated in any applicable trust fund agreement. The U.S. Government also retains certain rights to reporting and accountability by virtue of its membership in the PIO through the U.S. Executive Director.

The ARTF was established in 2002 and is essentially a "bank account" that holds donors' money in trust. Its governance and fiduciary framework is at the same high level as other World Bank controlled trust funds. For all trust funds administered by the World Bank a "single audit" is conducted every year based on an assessment of the Bank's internal and financial management controls. The World Bank's procedures and controls are subject to annual review by an external auditor. The ARTF agreement also requires that the World Bank provide donors with an annual management assertion together with an attestation from the Bank's external auditors on the satisfactory performance of the procedures and controls used by the Bank in administering grant funds.

The primary vulnerability with regard to the ARTF is not with respect to expenditures by the World Bank itself for trust administration, but with respect to expenditures by Afghan Government recipients of ARTF funds. While the ARTF trust fund agreement does not provide for direct audits by donors of those Afghan Government agencies, with the cooperation of the GIROA and under the provisions of other assistance agreements the U.S. Government has been able to directly audit certain of these activities in the same way as we would if these were bilaterally funded.

Project audits of ARTF-financed projects are carried out annually by the Government of Afghanistan's Control and Audit Office (CAO), by a contracted international firm. The Auditor General conducts the annual financial statement audits of all the ARTF funds to international auditing standards with the support of an international firm of public accountants. Audit findings are reviewed in detail and action plans established where the need for remedial improvements is detected. Improvement of system gaps is a condition of continued disbursement. Where audits reveal non-project-related expenditures, the Government must make full and prompt refund. The Afghan Government has a prompt record for doing so to date. Expenditure scrutiny occurs in parallel with the attention on and improvement of systems. Large-value expenditures are subjected to detailed examination by World Bank staff accountants prior to payment. Smaller-value expenditures are normally honored based on a statement listing such expenditures which is then subject to post-review, spot checking and periodic audit by World Bank fiduciary staff.

We are in daily communication with the World Bank and the ARTF. We also work closely with key ARTF donors on a regular basis. Furthermore, USAID participates in ARTF Donor Committee Meetings on a quarterly basis to discuss the status and strategic direction of ARTF and to provide policy guidance to the Management Committee. The donor meetings are also an opportunity for the Afghan Government to present its priorities for ARTF funding in line with its budget and development strategy.

Question #2:

Can you assure us that funding provided to the ARTF has the same restrictions in place as U.S. bilateral assistance so that we can ensure that U.S. law is upheld? For instance, are implementing partners, at all levels, required to include certifications requiring screening for terrorists?

Answer:

The World Bank provides fiduciary oversight over the ARTF. Before the ARTF disburses funding to entities of the Government of the Islamic Republic of Afghanistan (GIROA), the World Bank Integrity Vice Presidency (INT) screens this action using procedures that were agreed upon by the World Bank's executive board, of which the USG is a member. As a Public International Organization, the World Bank is subject to neither US nor any other donor nation's laws.

The World Bank contracted Price Waterhouse Coopers (PWC) to serve as the Monitoring Agent of the ARTF's Recurrent Cost Window. This contract is renewed annually. We continue to press that the Monitoring Agent visits more provinces and conducts more field visits to provide more adequate oversight, a recommendation common for almost any project in Afghanistan.

In terms of terrorist screening, this kind of issue is dealt with by the World Bank's INT. The INT maintains its own list of de-barred firms and individuals and has recently developed the Company Risk Profile Database that is linked to, inter alia, the UN sanctions list. All new World Bank contracts (following a competitive and open procurement process) are filtered through this system to confirm that there are no formal objections. They also review the terms of reference, credentials of the firms, proof that they exist, are fit to do the work, etc. Recently, the World Bank had a case where one of their individual Afghan contractors came up as a member of the

Taliban and a process was followed which established that there were two individuals who had the same name and were in fact two different people.

Question #3:

In your opinion, are the World Bank's audit and oversight procedures good enough or should something be changed to grant USAID more audit rights? What can we do to make that happen legislatively?

Answer:

The World Bank's audit and oversight procedures of the ARTF itself are sound. As discussed in the response to Question 1, the potential for vulnerabilities are with the Afghan agencies that the ARTF is financing. Therefore the primary focus of the USG is on working with and developing the capacity of the GIROA to conduct project level audits through the Control and Audit Office (CAO) of recipient agencies of ARTF financing. Additionally, as with the SIGAR audit of the NSP, the USG is conducting its own reviews of certain projects to ensure proper accountability for these funds. Our focus is on strengthening the Government of the Islamic Republic of Afghanistan's ability to deliver results to its people in a transparent and accountable manner.

**Questions for the Record
Submitted to USAID Administrator Rajiv Shah by
Ranking Member Kay Granger
House Appropriations Subcommittee on Foreign Operations
July 28, 2010
Oversight of U.S. Civilian Assistance for Afghanistan**

MONITORING AND EVALUATION

Question #1:

Ambassador Eikenberry mentioned to the Subcommittee that new reporting requirements were recently put in place for implementing partners operating in Afghanistan. What are those new requirements?

Answer:

USAID partner reporting will be strengthened by the implementation of the USG performance management plan. This plan establishes results frameworks which clarify assumptions and causal linkages between objectives and activities, and focuses on results-oriented reporting. Partners will be able to understand how their projects advance USG objectives in a specific sector and will be required to report against relevant performance indicators. While reporting against such indicators is currently taking place, the performance management plan will illustrate the causal linkages between individual projects and the development objective for each technical sector.

Question #2:

How are you overcoming security challenges to ensure proper oversight of programs?

Answer:

USAID staff's ability to get out in the field to monitor activities is dependent on the security conditions of each district, as well as the military footprint in the area. In Regional Command (RC)-East and RC-South, where many of our personnel are located,

most, but not all, USAID officers' site visits are accompanied by the military. In the North, some PRTs operate under a self-drive policy, so civilians go out unaccompanied by the military. In RC-West, self drive is also effective in some locations, although some Regional Security Officer (RSO) limits are in effect, such as limits on distances driven, or limits on travel with tier II security contractors. Our Foreign Service National (FSN) personnel - in their official capacity - allow USAID to engage further in oversight of our activities that US personnel are unable to visit due to security concerns.

Coordination with PRT staff and the assignment of field program officers are also being done to enhance project monitoring beyond the monitoring and evaluation components already built into project agreements. For some projects, third-party monitoring contractors are hired directly by USAID to perform concurrent monitoring to ensure that program objectives are being met and reported results are validated.

Furthermore, it is important to note that USAID and the RSO are working closely to establish new security measures in the field. USAID is taking a number of immediate steps including: sharing implementing partner contact information with ISAF military, Afghan military and police, and our USG regional platforms; sharing best practices in physical and procedural security; sharing technical countermeasures with our implementing partners; and conducting vulnerability assessments of partner compounds and residences at implementing partner request.

Questions for the Record
Submitted to USAID Administrator Rajiv Shah by
Ranking Member Kay Granger
House Appropriations Subcommittee on Foreign Operations
July 28, 2010
Oversight of U.S. Civilian Assistance for Afghanistan

DIRECT ASSISTANCE

Question #1:

You described the Administration's policy on direct assistance as the right approach in Afghanistan and as the best way to build accountability and capacity. In FY 2009, USAID obligated less than 10 percent of funds for direct payments to partner country public institutions. Why is USAID now pursuing this model more broadly in Afghanistan? Will this be pursued in other countries? If so, where? Are there numerical goals associated with USAID's direct assistance globally?

Answer:

At the Kabul Conference in 2010, the U.S., in line with January 2010 London Conference Communiqué, restated its strong support for channeling at least 50% of development aid through the Afghan Government's core budget within two years. As committed at the London Conference, the Afghan Government must first strengthen its public financial management systems, reduce corruption, improve budget execution, and increase revenue collection to finance key National Priority Programs.

Currently, USAID is providing approximately 20% of our assistance through the Government of the Islamic Republic of Afghanistan (GIROA) host country mechanisms which include the Afghanistan Reconstruction Trust Fund, Ministry of Public Health, Ministry of Communications and Information Technology, Ministry of Finance, and Ministry of Agriculture, Irrigation and Livestock. USAID is fully committed to increasingly provide funds directly to the Afghan government, and will require commitments from the government to put in place improved transparency, financial

management, and other relevant processes to ensure the proper use of U.S. funds. This is a process the Agency is entering into with great care and deliberation. USAID is engaged in a series of assessments to review ministries and their capacity to handle on-budget assistance, while also working to increase their capacity to deliver basic services to the community.

As a result of completion of ministry assessments, USAID will be better positioned to make decisions to fund capacity building efforts and to establish mitigation strategies in support of direct assistance. The assessments will provide the basis for risk based decisions to undertake *specific procurement actions* that will be performed to implement *specific activities or programs* funded by USAID.

A majority of USG on-budget assistance is provided through the Afghan Reconstruction Trust Fund. The remainder of funds is directed through specific Afghan ministries that have all been assessed against financial management and procurement accountability requirements. Through this process the USG is working with the Afghan government and international community to ensure that public financial management, audit, procurement, and financial systems are put in place to demonstrate accountable and transparent use of funds. In line with true partnership principles, USAID is increasing engagement with Afghans at all stages of its assistance programs, from design to implementation to monitoring.

Current direct assistance programs:

- Ministry of Finance: Assessed and approved to implement the Civilian Technical Assistance Program (CTAP) for \$30 million. CTAP is a multi-donor effort to coordinate and deliver technical assistance to GIRoA

ministries and agencies that are Afghan-owned, demand driven, focused on capacity development, and accountable for effective results. The CTAP gives the GIRoA control over the recruitment, hiring, and placement process of technical experts who are paired with counterparts within the GIRoA to facilitate the transfer of skills and knowledge. Through technical assistance, CTAP aims to improve core operations necessary for a functioning government -- such as finance, procurement, budgeting, human resources, policy development, and coordination among GIRoA institutions at the national and sub-national levels. The program runs until September 30, 2011. USAID has contributed \$30 million and DFID has contributed \$3 million to the program. USAID has rights to directly audit this program..

- Ministry of Public Health: Assessed and procurement actions are underway for a \$236 million Host Country Contract. This is a five year agreement for the implementation of health services. USAID has third party audit rights and is providing technical assistance and oversight through a separate project.
- Ministry of Communications and Information Technology: Assessed and procurement actions are underway for a one-year, \$1 million Host Country Contract. This activity seeks to provide equipment and international consultants to the Ministry. USAID has direct audit rights.
- Afghanistan Reconstruction Trust Fund (ARTF): This is a trust fund administered through the World Bank to which the USG is the largest

contributor. Pending availability of funds, USAID plans to contribute \$650 million in FY 2010. In reviewing programs and projects of the ARTF, USAID is in frequent communication with the World Bank and works closely with key ARTF donors. USAID also participates in ARTF Donor Committee Meetings on a quarterly basis.

- Ministry of Agriculture, Irrigation and Livestock (MAIL): Currently, the establishment of the Agriculture Development Fund (ADF) is an initial activity in this sector assistance program to which USAID would contribute \$150 million in FY 2010. We have contracted the services of a U.S. firm to provide technical assistance to MAIL in the implementation of the ADF, given the need to build management capacity in this ministry.

With respect to world wide direct assistance, USAID is heavily pursuing the model in other countries. We have engaged the services of a contractor and we are working collaboratively with other donors to establish USAID-wide assessment tools that will be consistent among all USAID recipient countries. Pilot activities are currently being implemented in countries in each major geographic region. USAID has not set a numerical goal for global direct assistance.

Question #2:

Ambassador Eikenberry told the Subcommittee about a new arrangement to provide direct assistance to the Ministry of Agriculture despite the fact that they have not been certified to manage U.S. funds. This would be conditioned on having USAID advisors in the Ministry to help manage the program. In the hearing you stated that USAID would not proceed with direct assistance without clear standards being met. Has the policy been relaxed to allow direct assistance even if a Ministry is not certified, as long as USAID staff are in place to oversee it? Do you plan to pursue this model in additional ministries, and what are the staffing implications if this model is used more broadly?

Answer:

USAID will not provide funds directly to a ministry unless we determine that the ministry is capable of properly using the funds (i.e., certified). A ministry may be certified if it is considered fully capable by itself of properly administering any funds provided; or, if its control and accountability systems have weaknesses, those weaknesses can, through the provision of additional training and/or on-site technical assistance and oversight, be sufficiently alleviated to permit direct disbursement of funds without unacceptable risk. Our direct assistance strategy focuses on a process of assessments which will result in risk based decisions on the propriety of providing direct assistance. The assessments will provide information to determine how mitigating strategies might be employed to reduce risk. As your question notes, having USAID advisors imbedded in ministries is an attempt to mitigate identified risks.

Since my arrival I have been pressing for a series of USAID reforms, one of which focuses on direct assistance as a means of implementation reform. In formulating a new strategy, we are not relaxing our processes but rather refining our approach and focusing our processes on risk based management strategies. This new approach is intended to expand to additional ministries and ultimately to more USAID country

programs. This reform is not without risk and does demand increased resources to focus on the integrity of country systems, as well as working collaboratively with the host government and other donors.

At present, six Ministries have been assessed, including the Ministry of Agriculture, Irrigation, and Livestock (MAIL), which was identified as having limited capacity. By and large, those completed assessments have concluded the capabilities of the ministries are satisfactory, with the Ministry of Education and MAIL being the only two that showed “some capacity weakness.”

It is important to note that if the required assessment discloses significant weaknesses in a ministry’s capability, but which are not so significant that USAID cannot work with the ministry to overcome them, there is an option. If USAID wants to move forward with approving on-budget assistance, then immediate measures will be put in place to mitigate risk, such as what was done for MAIL. In the case of host country contracting, the USAID Mission Director must detail in the certification those particular weaknesses and the plans to overcome them.

If there are weaknesses or deficiencies that prevent USAID from providing direct funding to a Ministry, the Ministry should take corrective actions. Once corrective actions have been taken, a limited assessment review can be conducted in order to determine whether actions taken to correct the deficiencies are adequate and whether the weakness or deficiency still exists.

On-budget assistance can be provided to ministries with identified weaknesses on the condition that USAID staff is in place to oversee it, which will require additional staff.

Questions for the Record
Submitted by to USAID Administrator Rajiv Shah by
Ranking Member Kay Granger
House Appropriations Subcommittee on Foreign Operations
July 28, 2010
Oversight of U.S. Civilian Assistance for Afghanistan

AUDITS

Question #1:

During the hearing, you stated that USAID is familiar with the audit firms being used to help with certifications of Afghan Ministries. However, USAID recently sent the Subcommittee the following information in response to Subcommittee staff inquiries on this matter:

“USAID Afghanistan has a signed recently a Blanket Purchase Agreement (BPA) with five local audit firms to obtain their services in conducting pre-award surveys, financial reviews, host country assessments and performance audits. Ministerial assessments will be conducted through the issuance of Purchase Orders (POs) under the current BPA to the audit firms. As far as the capacity of the local CPA firms is concerned, USAID has never worked with them apart from KPMG; however, all these audit firms have been approved by our Regional Inspector General/Manila. RIG/Manila has also conducted desk reviews of the approved audit firms.”

Please explain the discrepancy between the comment in the hearing and this information.

Answer:

The familiarity with such firms does not come from direct interaction with USAID, but was gained through USAID Regional Inspector General (RIG)/Manila’s approval of the firms. In determining acceptability of an audit firm, the RIG reviews a firm’s composition and experience to ensure that the firm has adequate audit quality control procedures as well as a high degree of professional quality. The results of the reviews of these audit firms were satisfactory for RIG/ Manila to approve their usage. Subsequently, after the firm conducts audits for USAID, the RIG performs a review of

the final audit product and for new firms conducts a quality control review of the firm's work papers to ensure that adequate audit work was conducted.

The Office of Inspector General is transferring day-to-day supervision of oversight activities of USAID's program in Afghanistan from RIG/Manila to the OIG Country Office in Afghanistan. The OIG/Afghanistan Country Office is collaborating with USAID/Afghanistan to expand financial audit coverage of the USAID program, and one of the highest priorities will be to ensure adequate coverage of direct assistance agreements. OIG/Afghanistan also plans two performance audits of direct assistance programs in FY 2011: one will determine if USAID/Afghanistan's pre-award survey process for direct assistance provides reasonable assurance that Afghan institutions can responsibly manage U.S. Government funds, and the second will determine if assistance to the Ministry of Public Health—the largest bilateral direct assistance program in the portfolio—is achieving its objective of effectively delivering health services in targeted provinces.

Questions for the Record
Submitted to USAID Administrator Rajiv Shah by
Ranking Member Kay Granger
House Appropriations Subcommittee on Foreign Operations
July 28, 2010
Oversight of U.S. Civilian Assistance for Afghanistan

CONTRACTING

Question #1:

Please elaborate on your comments regarding the need for additional improvements on oversight of sub-sub contracts or grants.

Answer:

USAID takes the issue of oversight over our contracts, grants and cooperative agreements at the prime and sub level seriously. USAID follows all applicable rules, regulations, and Agency policies as they relate to federal contracts, grants and cooperative agreements. In matters relating to sub-awards, a USAID prime awardee is held responsible for all costs incurred and performance under a USAID award. We seek to ensure that the U.S. Government is not overly vulnerable and therefore follow provisions as outlined in federal regulations on all matters related to sub-awards.

In general, agreement requirements “flow down” to sub-awards through the appropriate contract clauses, including those specifically covering operations outside of the U.S. USAID has issued reminders to its implementing partners as well as its own staff regarding flow down clauses.

Furthermore, USAID must provide consent to sub-contract (except for small value awards). When the Contracting Officer considers providing consent for a Prime Contractor/Grantee to enter into a sub-award, we may question the prime to clarify information and ensure the prime has conducted due diligence in conforming to USG

requirements. Specific procedures and criteria govern how USAID reviews for consent to subcontract under Federal Acquisition Regulations (FAR) (in addition to any requirements specific to Afghanistan – e.g., all subcontractors providing security services are required to be registered and have licenses from the Afghan Government).

These criteria include:

- Whether the contractor performed adequate cost/price analysis or price comparisons;
- Whether the contractor had a sound basis for selecting and determining the responsibility of the subcontractor; and
- Whether an adequate price competition was obtained and, if not, what is the justification for not doing that.

If USAID receives information or becomes aware of any practice or conduct of a sub-awardee that could be grounds for termination, we pass this information directly to the USAID prime awardee as well as to our own IG or Special Inspector General for Afghan Reconstruction (SIGAR).

Questions for the Record
Submitted to USAID Administrator Rajiv Shah by
Ranking Member Kay Granger
House Appropriations Subcommittee on Foreign Operations
July 28, 2010
Oversight of U.S. Civilian Assistance for Afghanistan

AFGHAN OVERSIGHT INSTITUTIONS

Question #1:

What are the specific outcomes USAID anticipates from the \$30 million program supporting the High Office of Oversight and how do you intend to achieve them? Do you have full confidence in the HOO's independence and relevance as the lead oversight body?

Answer:

The High Office of Oversight (HOO) is positioned to play a critical role in anti-corruption. With a potential \$30 million in USAID support to the HOO at central and provincial levels, we aim to build its ability to become more independent, to gain needed authorities, and to play a leadership role on anti-corruption within the Afghan government. USAID's assistance will help HOO develop its internal investigative and complaint tracking capacities and coordination across government ministries. The prior level of USAID assistance, a modest \$1 million, was insufficient to build the required capacity within the HOO, buttress against bureaucratic pressure, and achieve needed levels of integration across the "whole of government" Afghan approach to combating corruption. Although important accomplishments such as the implementation of asset declarations by government officials were achieved, our new and much larger assistance effort will be essential for the HOO to become capable of meeting the considerable challenges it faces.

An audit of the HOO by the Special Inspector General for Afghanistan Reconstruction (SIGAR) outlined a number of specific steps that will help insure that the office functions independently and with sufficient legal authority, including: the enactment of legislative reforms, measurable performance benchmarks of the HOO, multilateral donor coordination and agreed upon conditions for continued aid, the resignation of HOO Director General and Deputy Director General from their presidential advisory positions or from their positions with the HOO, the designation of appropriate international observers, and the reinvigoration of international donors. HOO's independence as an oversight body ultimately requires legislation to provide budgetary and appointment independence.

WITNESSES

	Page
Benjamin, Ambassador-At-Large Daniel	579
Clinton, Hon. H. R	1
Fields, Major General Arnold	655
Gambatesa, D. A	655
Geithner, Hon. T. F	273
Goosby, Eric	489
Holbrooke, R. C	783
Johnson, Charles	655
Johnson, D. T	579
Shah, Dr. Rajiv.....	97 783
Shapiro, A. J	579
Steele, Gloria	489
Williams, A. S	381
Yohannes, D. W	427

